

Seventh Siena Conference
on the Europe of the Future



PONTIGNANO MANIFESTO





The future of Europe is no longer an abstract institutional question. It is the concrete challenge of whether Europeans can still govern the forces reshaping their security, prosperity, democracy and freedom. From war and energy security to artificial intelligence, demographic decline and the erosion of democratic legitimacy, Europe is being asked to become an actor in a world in which being merely a market, a regulator or a witness is no longer enough.

This, in a nutshell, is the message articulated in the Pontignano Manifesto, emerging from the **Seventh Siena Conference on the Europe of the Future**, held at **the Certosa di Pontignano from 11 to 13 June 2026¹**.

The Conference brought together policy-makers, scholars, journalists, entrepreneurs, students and representatives of European institutions and civil society. Among them were **Romano Prodi**, former President of the European Commission and former Prime Minister of Italy; **Raffaele Fitto**, Executive Vice-President of the European Commission; **Paolo Gentiloni**, former European Commissioner and former Prime Minister of Italy; **Maria João Rodrigues**, Chair of Re-imagine Europa; **Barbara Kolm**, Member of Austria's National Council; **Giorgio Gori**, MEP and Vice-Chair of the Committee on Industry, Research and Energy at the European Parliament; **Christophe Grudler**, MEP Renew Europe and member of the Committee on Industry, Research and Energy at the European Parliament; **Annalisa Piras**, Director & Founder of The Wake Europe Project; **Enrico Giovannini**, Former Italian Minister of Infrastructures and Transports, and Professor of Economic and Statistics at the University of Rome "Tor Vergata"; **Paolo Cuccia**, President of Artribune; **Massimiliano Giansanti**, President of Committee of European Farmers – COPA – and Confagricoltura; **Francesco Boccia**, Chair of the PD Senators in the Italian Senate; **Dimitri Lorenzani**, Head (acting) of the R&D Strategy and Programme Coordination Unit - DG CNECT; **Erika Staël von Holstein**, Chief Executive at Re-Imagine Europa; **Sandro Gozi**, Secretary General of the PDE, and **Enrico Borghi**, Italian Senator.

Among representatives of firms were **Nazar Bigun**, CEO of Norda Dynamics; **Yevhen Popov**, Head of strategic partnership at Osavul; **Luca Bragoli**, Chief Regulatory & Public Affairs Officer at ERG s.p.a; **Antonella Baldino**, CEO and Managing Director, Istituto per il Credito Sportivo e Culturale; **Pascal Pinson**, CEO, Costa d'Oro, Italian leader in Olive oil, part of Groupe Avril, a French global leader in agrobusiness; **Alessandra Angelini**, Owner of Siena-based Elisabetta Gnudi Angelini, leader of wine producer; **Riccardo Parrini**, CEO at The Nest Company; **Peter Lochbihler**, Global Head of Public Affairs, Booking.Com; **Jean Pierre Kempeneers**, former Dutch Ambassador and

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Board member of Nexperia; **Nicola Villa**, Member of the Global Futures Council at World Economic Forum, and Former Executive Vice President for Strategic Growth at Mastercard; **Mario Mariniello**, Bruegel Non-resident Fellow; **Wolfgang Oels**, COO at Ecosia, and **Massimo Comparini**, MD Space Division, Leonardo.

The debate was also enriched by leading journalists and public voices, including **Matt Steinglass** and **Jan Piotrowski** from The Economist, **Laura Hood** and **Stephen Kahn** from The Conversation, **John Fund** from National Review, **Giancarlo Loquenzi** from RAI, and **Lilith Verstryngne** from El País and Le Monde Diplomatique.



The Manifesto builds on the work of four Problem Setting/Solving Groups and five plenary sessions devoted to Europe's strategic issues, from democracy and efficiency to defense, energy, digital autonomy, cohesion policies, common agriculture policy and institutional reform. The objective of the conference is to follow up on each of these ideas. Ultimately the rise and fall of economies and societies and political projects depends on how much knowledge is circulated and used to draft policies. It is a moral imperative that Europe uses all the energy that think tanks, universities, firms and media can generate.

The structure of the manifesto is the following:

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THE CONVERSATION



CONCEPT PAPER

Authored by Francesco Grillo, Francesca Stefani and Flavia Piras-Trow.

On April 2nd, the UK PM Keir Starmer called a conference call with his colleagues from the 27 EU member states (plus Canada, Bahrain, Norway, and the United Arab Emirates)². The meeting was held a few days after the EU commissioner for Energy Dan Jørgensen had said that the "prolonged disruption" to energy supplies from the Iran war should prompt national governments to consider "voluntary demand-saving measures ... with particular attention to the transport sector"³ and the Italian Defense Minister had acknowledged that "I am forced to know things that don't let me sleep"⁴. The only outcome of the meeting was to set the date of the next meeting.

We are most likely walking powerless towards energy lockdowns that may resemble those forced by the Covid-19 Pandemic. We may be facing security risks that we cannot even name (according to the *Bulletin of the Atomic Scientists*, we have never been so close to a nuclear event⁵). And in the meantime, it seems that the EU continues to be merely witnessing a battle for the "artificial intelligence" (AI) that will change everything. And yet before naming the problem, it is worth naming what is at stake.

And yet Europe is still seen by many as the place where people live best. This is both good and bad news. It can become our powerful competitive advantage if we understand that this is not just about tourism, especially in a world which will be dominated by "robots that cannot dream"⁶ (and yet we are not using it because it is too ... obvious). And yet the "dolce vita" can also become a trap, because we may be too comfortable to feel the rage we need if we do not wish to go gently into our own decline⁷.

THE THING ABOUT EUROPE⁸.

In 1776, it was Thomas Jefferson to famously establish that the fundamental right of all men and women should be to "pursue life, liberty and happiness". It was that declaration of independence that made this "right" distinctive of a new era in the former colonies that had just become the United States of America.

After two and half centuries, the next three graphs show that it is now Europe that enjoys the better quality of life and, actually, where people can better "pursue life" (life expectancy

² <https://www.politico.eu/article/europe-up-policing-hormuz-strait-only-fighting-stops/>

³ <https://www.politico.eu/article/brussels-urges-europeans-to-travel-less-to-avoid-spiraling-energy-costs/>

⁴ <https://www.politico.eu/article/how-bad-will-europes-energy-crisis-get/>

⁵ <https://thebulletin.org/about-us/science-and-security-board/>

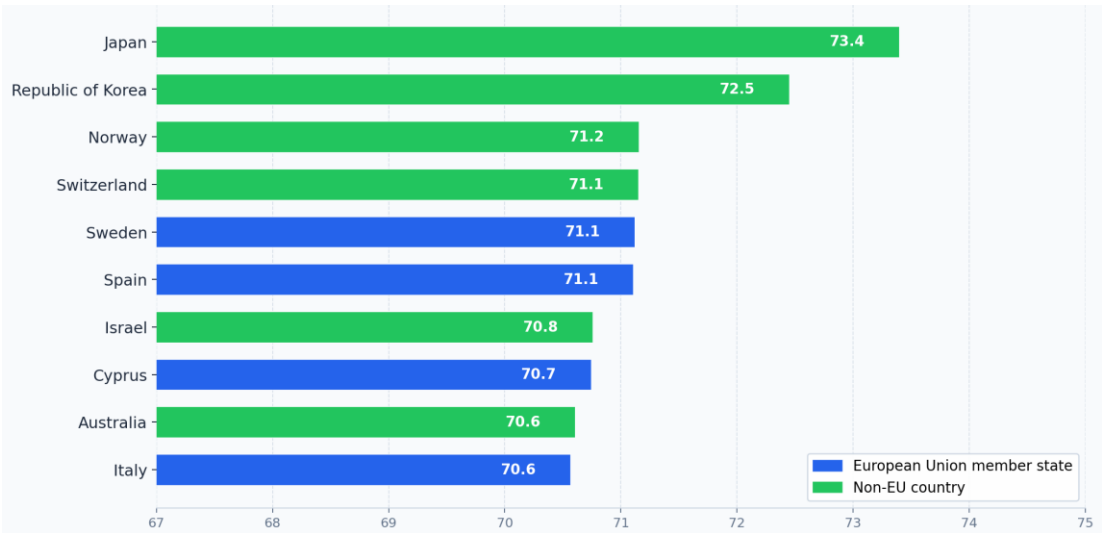
⁶ As in the iconic grand finale of *Blade Runner*, the movie (1982).

⁷ As for Dylan Thomas' famous poem (1947).

⁸ This was the title of the beautiful OPED that Stanley PIGNAL wrote for the *Charlemagne* column at the *Economist* (<https://www.economist.com/europe/2025/04/10/the-thing-about-europe-its-the-actual-land-of-the-free-now>)

without chronic diseases is longer than anywhere else⁹), “liberty”¹⁰ and “happiness” (Finland and Denmark figure on the podium of 2025 World Happiness Report)¹¹.

Chart 1.1: Top 10 countries by Health-adjusted Life Expectancy (HALE)



Source: Vision on WHO Global progress dashboard

⁹ <https://www.who.int/data/gho/data/indicators/indicator-details/GHO/gho-ghe-hale-healthy-life-expectancy-at-birth>

¹⁰ <https://www.cato.org/human-freedom-index/2025>

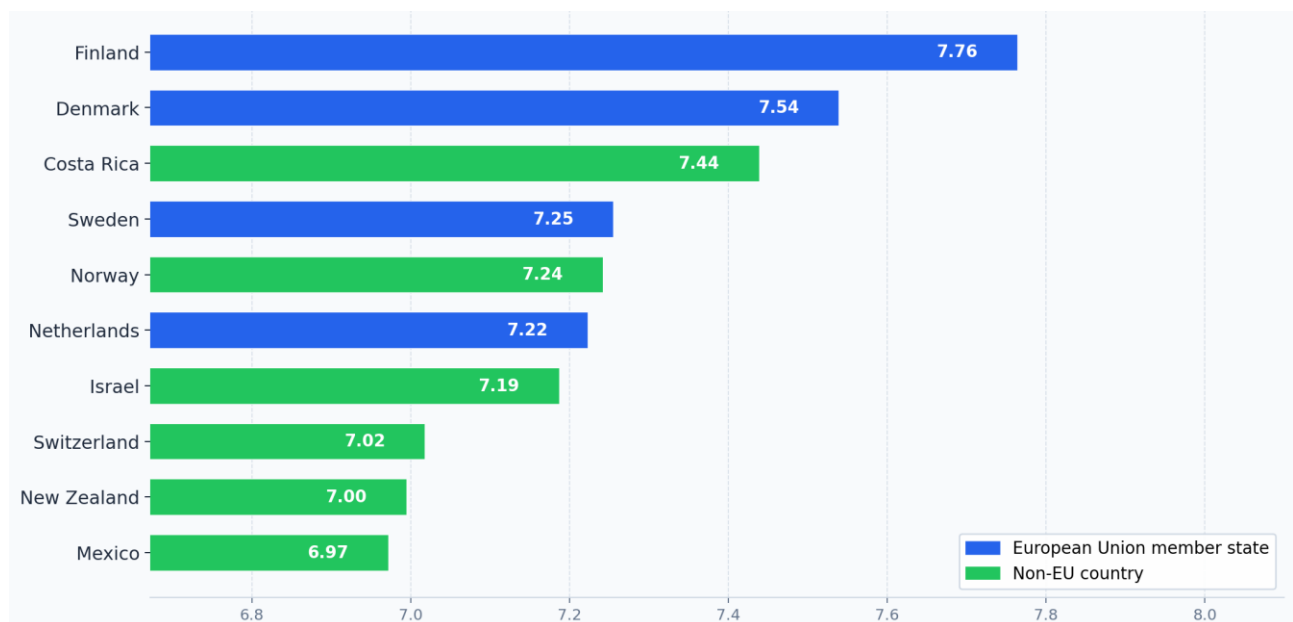
¹¹ 2025 World Happiness Report. <https://data.worldhappiness.report/table>

Chart 1.2 - Top 10 Countries by Freedom Index



Source: Vision on Freedom House data

Chart 1.3: Top 10 Happiest countries



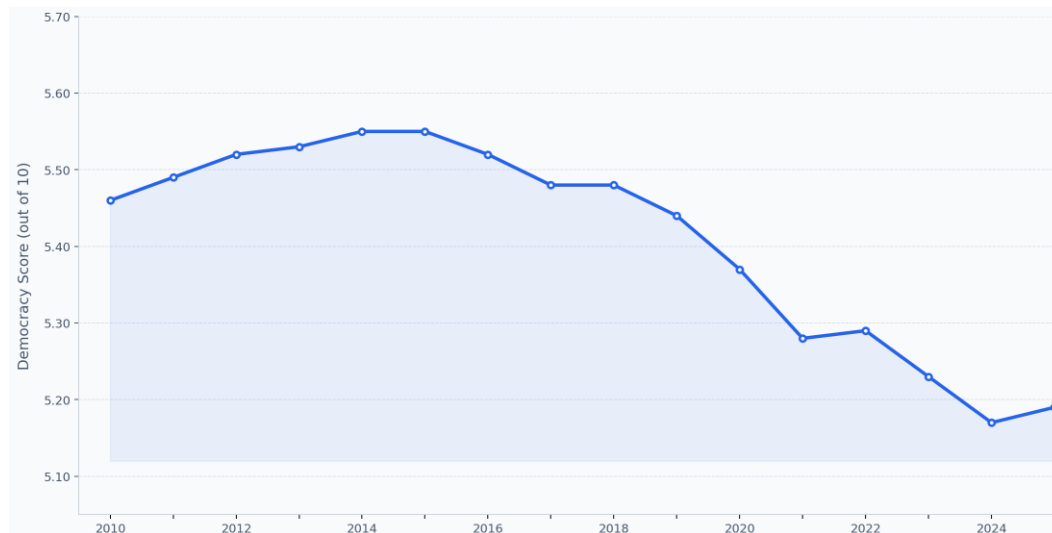
Source: Vision on 2025 World Happiness Report

Yet the acknowledgement of how much this ‘style of life’ is worth cannot become a reason to look away. Three converging threats put it in danger.

The first is the erosion of democracy itself. Democracy does not coincide with liberty and yet it is a notion that is normally associated with it.

The global average Democracy Index score, as measured by the Economist Intelligence Unit, has been falling almost continuously since its peak in 2014–15.

Chart 1.4: Global average Democracy Index score out of 10 (2010 - 2025)



Source: Vision on EIU data

Many explanations have been provided for this. Yet one of the most convincing is that – unlike for the famous Acemoglu’s argument¹² - democracy and growth appear to be negatively correlated (both amongst developed and developing countries¹³). This trend is not limited to authoritarian backsliders. It reflects a widening gap between citizens and institutions across the democratic world, including within the European Union itself. The EU's response to successive crises has too often been incremental, opaque and top-down. This is the legitimacy deficit that any credible reform agenda must address.

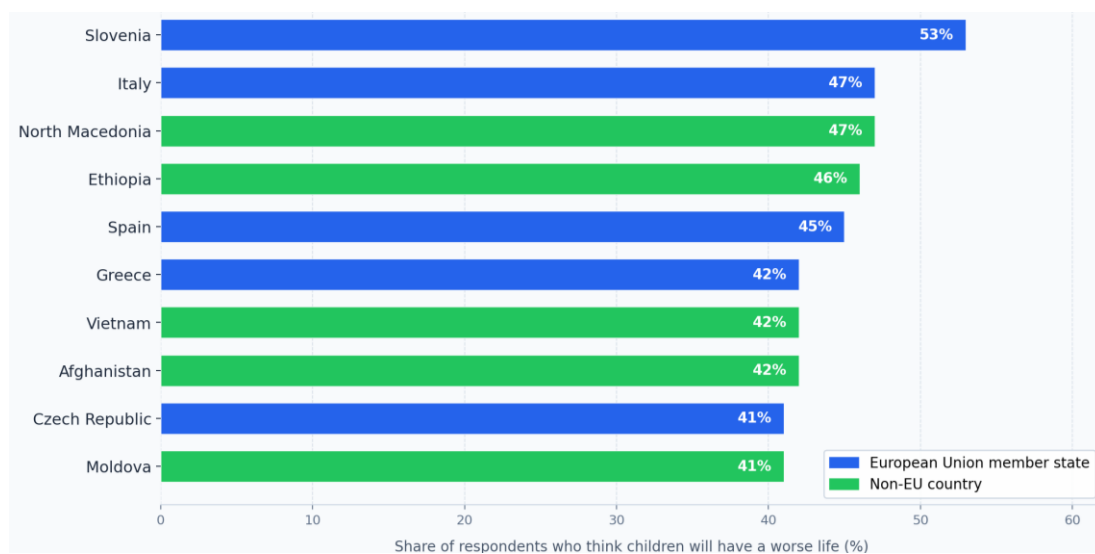
Also, the superior happiness idea can be turned on its head.

The data on generational pessimism is particularly sobering. A global poll conducted in 2022 found that the countries whose populations were most likely to believe their children will have a worse life than themselves were disproportionately European, with Slovenia and Italy occupying the first and second position respectively.

¹² <https://economics.mit.edu/sites/default/files/publications/Democracy%20Does%20Cause%20Growth.pdf>

¹³ https://www.researchgate.net/publication/330930288_Democracy_and_Growth_in_the_Twenty-first_Century_The_Diverging_Cases_of_China_and_Italy

Chart 1.5: Top 10 most pessimistic countries: Share of respondents who think their children will have a worse life than them

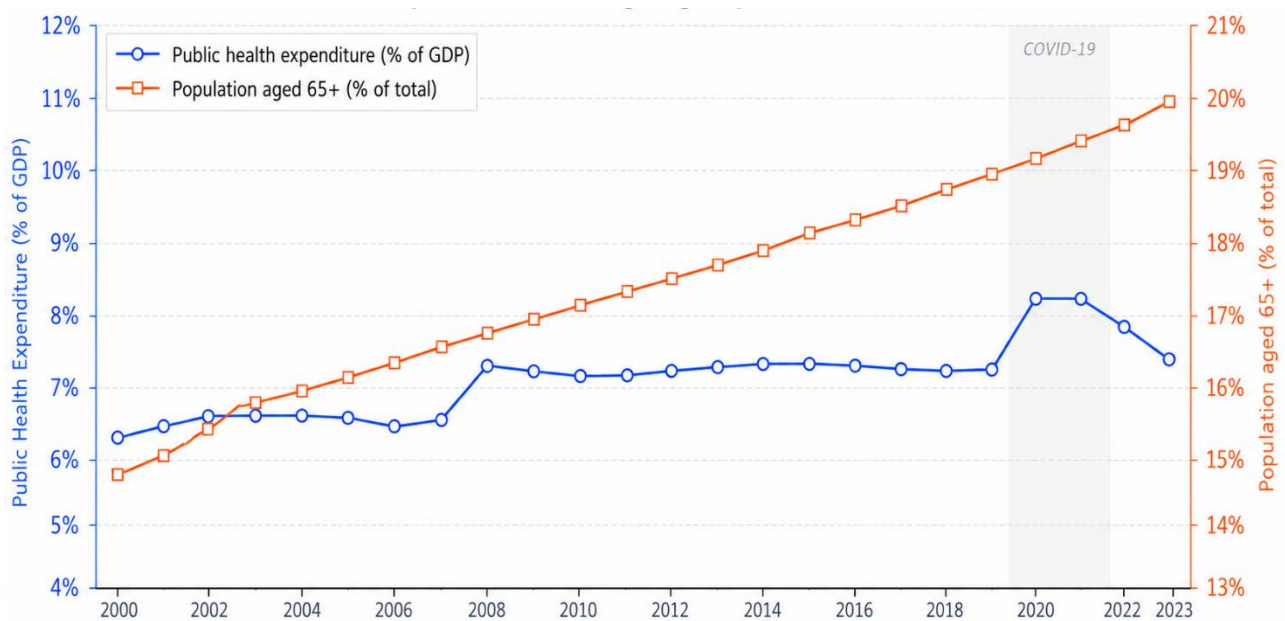


Source: Vision on a global poll conducted by GIA (August – October 2022).
[URL:https://gallup-international.com/survey-results-and-news/survey-result/do-we-live-better-than-our-parents-and-what-about-our-children](https://gallup-international.com/survey-results-and-news/survey-result/do-we-live-better-than-our-parents-and-what-about-our-children)

Five of the ten most pessimistic countries in this survey are EU member states. This is the human reality behind the institutional debate: a continent that objectively offers the best conditions for a good life, yet whose citizens increasingly doubt that those conditions will last enough to be transmitted to their children. It seems that we are trapped between a great (although fragile) present and a relatively dark future. This may have the effect of paralyzing us.

Even the “life” advantage is at risk: Europe is ageing and the fiscal consequences are already here. Because of its own high life expectancy (HALE), the share of the EU population aged 65 and over now exceeds 20% and is rising steadily. Public health expenditure as a proportion of GDP has tracked upward in parallel but not proportionally. With a sharp spike during the Covid-19 pandemic, before settling at levels that are fiscally unsustainable given the age trajectory.

Chart 1.6: Public Health expenditure & Ageing Population in the EU (2000 – 2023)



Source: Vision on Global Health Expenditure Database, WHO, via World Bank (2026) & UN, World Population Prospects (2024)

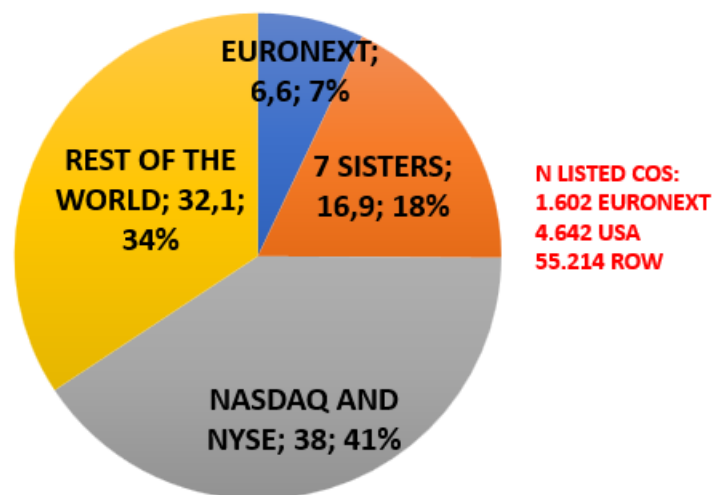
The intersection of these two curves, rising health costs and an expanding elderly cohort, creates a fiscal pressure that is not a future problem but a present one. Pension systems, health services and long-term care are already under pressure in nearly every member state. The question of how Europe finances its welfare model while simultaneously investing in defense, green transition and digital transformation is not abstract. It is the central trade-off of EU budget politics for the decade ahead.

THE REAL NAME OF THE COMPETITIVENESS GAME

Competitiveness is not just a name that economists and central bankers like to consider central in their discourse. It is the energy we need to still pursue the values that define our societies.

Europe is losing the economic and technological race on which its future capacity to sustain that welfare model depends. Any honest appraisal of its strategic position must begin with a stark acknowledgement of this marginalization. The data from global capital markets is unambiguous.

Chart 1.7: Share of Global Market Capitalization (100% = €93.6 trillion; June 2025)

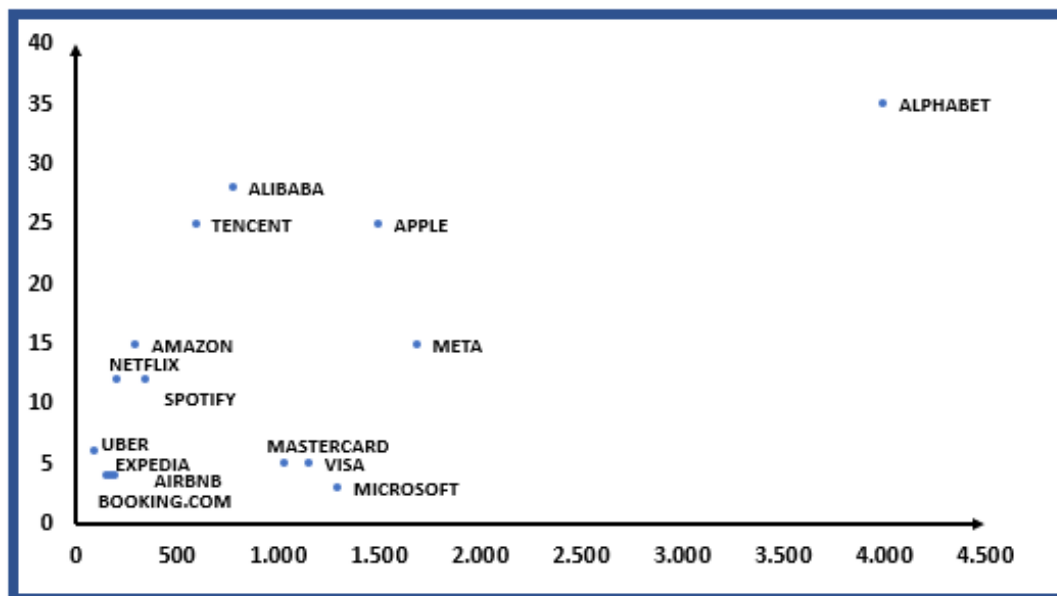


Source: Vision on Companies market cap; FT

The numbers behind the chart tell the full story. Out of 62 foundational models developed globally, only 3 came from EU companies, compared with 45 from the US, 15 from China, 7 from ALPHABET alone and 6 from Alibaba. Of the 27 platforms designated as 'very large online platforms and search engines' under the EU's own Digital Services Act, only one, Zalando, is European. Among the fifty largest companies by market capitalization, only ASML qualifies as genuinely European (amongst the few European platforms that "changed history", Spotify does not even make the largest 200).

This is not merely an economic observation. Control of data is control of power. The scatter chart below maps the world's largest digital platforms by number of users (horizontal axis) against the intensity and type of data they acquire (vertical axis).

Chart 1.8: The Battle for Information That Is Power. Horizontal axis: users (billions); vertical axis: intensity/type of data acquired¹⁴ (2022).



Source: Vision & Value (report on “the impact of digital platforms on the European Economy”, 2022¹⁵)

The EU's regulatory instinct, embodied in the DSA and the AI Act, has been to govern these platforms rather than build competing ones. The result is a digital dependency that has strategic as well as economic consequences.

For Mario Draghi, the failure to act on these challenges represents the existential threat Europe is facing¹⁶. The title of the 2026 Siena Conference, “A Third Way for Europe,” holds that the best means of defending what we care about is to have moral, intellectual and political credibility in order to propose a new world order: a third way between a 20th-century framework that has disappeared and a chaos that makes everything uncertain and would lead to destruction¹⁷.

Vision position is not 100% the one that Draghi has been advocating for¹⁸. And yet we urgently need to acknowledge the existential threats we have been discussing for years with

¹⁴ As for Vision study (2023), the vertical axis of this chart reflects not only the volume of interactions, but the depth of data extracted: from user-generated content and profile information, through provision of public services, to financial transaction data and intellectual property covered by industrial secrecy. Entire study (supported by AMAZON) is available at <https://visionandvalue.com/portfolio/the-impact-of-global-digital-companies-on-consumers-firms-and-governments/>

¹⁵ <https://visionandvalue.com/portfolio/the-impact-of-global-digital-companies-on-consumers-firms-and-governments/>

¹⁶ https://commission.europa.eu/topics/competitiveness/draghi-report_en

¹⁷ <https://www.thinktank.vision/en/articles/democracy/europes-third-way>

¹⁸ We, for instance, are convinced that any serious rethinking of Europe MUST engage citizens and that it would be a mistake to continue with a “top-down” method and work made by very small circles of so-called “experts”, each with their language. <https://www.theguardian.com/commentisfree/2025/jul/12/young-people-eu-citizen-digital-age-erasmus-school>

no consequence. Whoever wants to try to save a style of life must feel the urgency to try a new approach, an urgency made even greater by the events that marked the start of 2026 (Venezuela, Iran, Greenland).

We must reject – much more firmly than we have been able to do so far - this idea that there is no law order and yet, we must urgently understand why the 20th-century institutions became incapable of protecting international law. We cannot tolerate unilateral decisions whose prices are paid by everybody (including European families and firms), and yet we cannot limit ourselves to hopelessly “monitoring” events that we cannot control. It is necessary to distance ourselves from those who are destroying stability, and yet it is indispensable to understand where they got their political energy from. The defense of the "status quo" is no longer an option, and we need the autonomy, the "power", the “force”, and – even more – the ideas to help design a new world order. We need a third way and places to nurture new ideas to go beyond the clash of ideologies that cannot make sense of the mutation we are living.

A THIRD WAY FOR EUROPE

The scheme below maps the key policy domains where Europe currently faces what appear to be zero-sum trade-offs, and where the Conference will seek problem-solving approaches to break those impasses. Each row of this framework identifies a domain: Digital, Regulation/Energy, Defense, Democracy/Decision-Making/Enlargement, MFF/Cohesion Policies, where the current European approach is trapped between two unattractive poles.

Table 1.1: A third way for Europe – the problem solving to break the trade-offs (zero sum games)

FINANCIAL MARKET LED (USA)	DIGITAL	POLITICAL PARTY LED (CHINA)
REDTAPE	REGULATION/ ENERGY	(NOT EVEN) STRATEGIC RETREAT
5%	DEFENCE	INERTIA
EFFICIENCY ILLUSION AND POLITICAL BACKLASH	DEMOCRACY/ DECISION MAKING/ ENLARGEMENT	LCD, ELECTIONS AS LEGITIMACY LEVER AND PARALYSIS
STATUS QUO	MFF/ COHESION POLICIES	PIECEMEAL NRP

Source: Vision

The Seventh Conference on the Europe of the Future, taking place in Pontignano/Siena from the 11th to the 13th of June 2026, starts from here. Its objective is to solve those trade-

offs. To find a third way amongst polarized ideologies and agendas. To rebuild enthusiasm and the idea that we can still build on the present our own future.

This concept paper also tries to give a name to the solution through which we can try to reconstruct a method for governing complexity: Draghi called it “pragmatic federalism”; Vision – the convenor of the Conference – has been calling this paradigm “cluster of integrations”; somebody else is talking about “coalition of the willings”. Our only certainty is that the “Europe of the Future” will be radically different from the one we have now. It is a certainty made even more stark by the strategy our most reliable ally has repeatedly declared: the US National Security Strategy opens gaps that a European Security Strategy must fill. We must do so by equipping ourselves with new institutional, financial and strategic capabilities.

The Conference will seek to define more clearly what must be done to make Europe fit for the uncertainties we have not yet fully understood. And this will produce concrete proposals for each of the military, economic, and environmental questions that need strategies. It is a problem-solving exercise we need to reform the EU, but also to redesign the so-called “multilateral organizations” that – like the EU – seem to be suffering technological obsolescence. We are convinced that neither the defense of the status quo, nor the return to the “Nation States” can give us the answer we are looking for.

PSSGS (Problem Setting and Solving Groups)

PSSG1: Is There a Choice Between Democracy and Efficiency?¹⁹

In partnership with EUI

This working group explored whether democracy and efficiency should be seen as competing objectives. Participants largely agreed that democratic participation can strengthen, rather than hinder, effective governance by creating ownership, trust, and more sustainable policy outcomes.

Discussions emphasized that democracy in Europe should be understood as a network of interconnected local, national, and European communities. Since democratic life remains rooted primarily at the local and national levels, European integration should rely on cooperation across borders rather than on simple majority rule. Building these horizontal connections was seen as essential for a resilient and legitimate Union. A key theme was the need to rethink efficiency. Fast, top-down decisions may appear effective in the short term, but policies lacking public ownership often face resistance during implementation. Deliberative processes may require more time, yet they can produce more durable and widely accepted outcomes.

In this sense, citizens' assemblies were seen as valuable mechanisms for connecting citizens' preferences to institutional agendas, provided that they are accompanied by clear accountability and meaningful follow-up. Several participants proposed the creation of a digital EU-level citizens' assembly inspired by Taiwan's Pol.is platform. Citizens could submit proposals and complaints online, while AI-supported tools would identify areas of consensus rather than amplify polarization. Proposals reaching a certain threshold would require a response from EU institutions. Rather than creating new bodies, these mechanisms could build on structures established after the Conference on the Future of Europe.

Another recurring theme was decentralization. Participants argued that greater responsibility should be given to regions, cities, and local communities. Energy policy was highlighted as a successful example of this approach. Experiences from Germany, Italy, France, and Ireland show how energy communities and community-owned infrastructure can increase citizen involvement, strengthen local ownership, and improve policy implementation. However, participants stressed that decentralization should not lead to isolated local initiatives. Local communities should be connected across borders to foster exchange and avoid fragmentation.

Education was also identified as a key element in strengthening European democracy. A lack of understanding of the EU contributes to distrust and low participation. Participants therefore proposed stronger civic education, greater cultural and linguistic exchange, and wider use of digital tools to facilitate communication across languages and generations. These measures were viewed as important steps toward creating a stronger sense of European awareness without replacing national identities.

¹⁹ This section has been developed by the Problem Setting/Solving Group coordinated by Kalypso Nicolaidis (Chair in Global Affairs at the School of Transnational Governance, EUI) and Luca Verzichelli (Professor of Political Science at University of Siena). Student rapporteurs included Anna Gottardo, Cihan Yalnizer, Fanta Darboe, Kseniia Heorhiieva, Paula Benítez Sánchez, Sena Tan, Victoria BortolottiLlemos, Yesi Xu.

Finally, the group discussed how expertise and democratic participation can complement one another. Technical issues, such as nuclear energy, should be communicated in a clear and accessible way, allowing citizens to engage with evidence-based proposals through public consultations and deliberative forums.

Overall, the working group concluded that democracy and efficiency are not mutually exclusive. Effective governance requires citizen ownership, accountability, and stronger connections between local communities and European institutions. Democracy should therefore be understood not as an obstacle to efficiency, but as a means of producing more legitimate, resilient, and lasting solutions.

PSSG2: Between compliance and competitiveness: rethinking EU regulation as a driver of innovation²⁰

In partnership with UNISI and EAERE

Introduction

²⁰ This section was authored by Simone Borghesi (European University Institute & Deputy Dean University of Siena), Jacopo Cammeo (Research Associate at the Robert Schuman Centre for Advanced Studies – European University Institute) and Alessia Casamassima (Research Associate at the Robert Schuman Centre for Advanced Studies –European University Institute)

The relationship between regulation and innovation sits at the heart of one of the most contested debates in contemporary European economic policy. As the European Union has expanded its regulatory ambitions, from the General Data Protection Regulation (GDPR) to the AI Act, from the Corporate Sustainability Reporting Directive (CSRD) to the Emissions Trading System (ETS), the question of whether such rules constrain or catalyse economic dynamism has grown increasingly urgent. The Omnibus Simplification Package of February 2025 and its digital counterpart of November 2025 signal a recognition at the Commission level that the regulatory balance may have tipped too far toward compliance burdens and away from competitive outcomes (European Commission, 2025a; European Commission, 2025b). This paper examines the theoretical and empirical foundations of this tension, drawing on the Porter Hypothesis and recent scholarship on EU digital competitiveness and industrial policy. It advances a set of reform directions aligned with the concept of 'pragmatic federalism' under discussion at the Seventh Siena Conference on the Europe of the Future.

1. The Porter hypothesis revisited: what recent evidence tells us

The starting point for any serious analysis of the regulation–innovation nexus in the environmental context remains the Porter Hypothesis (PH), which posits that well-designed environmental and market regulation can, under certain conditions, stimulate innovation by pushing firms to develop cleaner, more efficient technologies, partially or fully offsetting the direct compliance costs (Porter & van der Linde, 1995). The hypothesis is conventionally distinguished between a 'weak' version, that regulation triggers eco-innovation, and a 'strong' version, that such innovation generates net economic benefits sufficient to enhance competitiveness.

Two decades of empirical scholarship have complicated, but not overturned, this framework. A recent multi-country meta-analysis by Yan et al. (2024), synthesising 84 studies across 34 countries, confirms a positive and statistically significant overall relationship between environmental regulation and green innovation, while identifying substantial heterogeneity driven by regulation type, sector, and national context. Market-incentive instruments, such as carbon pricing and emission trading, show consistently stronger innovation effects than command-and-control approaches (Dechezleprêtre et al., 2023; Chen et al., 2025), a finding directly relevant to the ongoing debate on ETS reform in the EU. A critical refinement concerns the heterogeneous effects of regulation across firm size and market position.

Chambers, McLaughlin and Richards (2022), exploiting industry-level regulatory data across the United States, find that cumulative regulatory burden disproportionately suppresses entry rates among smaller firms while larger incumbents retain the organisational and financial capacity to absorb compliance costs, and, crucially, to exploit regulatory complexity as a barrier against challengers. This incumbency advantage is directly relevant to the EU context: it helps explain why the GDPR, for instance, has been converted by firms such as IBM and Mastercard into proprietary compliance-as-a-service offerings, while limiting data access for start-ups that depend on third-party data for training AI models (Bradford, 2024). The policy implication is clear: uniform regulatory obligations that ignore firm-size heterogeneity systematically disadvantage the challenger firms that drive disruptive innovation.

2. The EU's regulatory paradox: standard-setting without industrial leadership

The European Union has emerged as the pre-eminent global standard-setter in the digital and sustainability domains. The GDPR reshaped data governance worldwide; the Digital Markets Act and Digital Services Act introduced new accountability frameworks for platform economies; the EU Taxonomy and CSRD defined the architecture of sustainable finance reporting. And yet, as the Draghi Report on the Future of European Competitiveness concluded with unusual candour, a 'decade of regulatory leadership has not translated into industrial strength' (Draghi, 2024, Part A, p. 7). No global digital champion of scale has emerged from Europe. Capital formation for deep-tech ventures remains constrained. The gap between regulatory ambition and industrial outcome is the defining paradox of European policy in the current decade.

Bradford (2024) provides the most rigorous recent treatment of this paradox in the digital domain. Challenging the tech industry's assertion that EU digital regulation is the primary cause of Europe's innovation lag, she identifies four structural root causes that precede and outweigh any regulatory effect: the absence of an integrated digital single market; underdeveloped and fragmented capital markets; punitive bankruptcy laws that discourage risk-taking; and immigration policies that constrain the attraction of global talent. Her conclusion, that the EU faces a 'false choice' between digital regulation and innovation, is directly actionable for the PSSG 2 agenda: the problem is not regulation per se, but the structural conditions in which regulated firms must operate.

This diagnosis is corroborated by Martens (2025), who argues that the Digital Omnibus package, while reducing some administrative friction, fails to address the deeper structural barriers, particularly in data market competition and cross-border scaling, that prevent EU digital firms from achieving the size necessary to compete with American and Chinese platforms. The case of the ETS illustrates both the promise and the limits of market-based environmental regulation. Caeli and Dechezleprêtre (2016), exploiting installation-level inclusion criteria to estimate causal effects, find that the EU ETS increased low-carbon innovation among regulated firms by approximately 10%, without crowding out patenting in other technological fields.

This positive causal effect is one of the cleaner pieces of evidence in favour of the narrow PH: market-based instruments, when the price signal is stable and credible, do drive innovation. The policy implication cuts directly against the direction of travel in 2025: the proposed suspension of ETS and CBAM provisions, discussed in the preparatory webinar for this Conference, risks dismantling precisely the price-signal consistency on which the innovation effect depends.

3. Toward a new regulatory grammar: from compliance costs to competitive architecture

Addressing the regulation–innovation trade-off requires not simply less regulation, but smarter regulation, calibrated to produce maximum behavioural change at minimum systemic cost, and distributed equitably across firm types. Three reform directions merit particular attention in the context of the Siena Conference's broader discussion of pragmatic federalism.

First, a decisive shift from input-based to outcome-based regulatory design. The CSRD in its original form required elaborate reporting of sustainability metrics regardless of any demonstrable link to environmental or social improvements. The Omnibus Package's

simplification of CSRD reflects a necessary correction, but risks swinging toward deregulation if not accompanied by stronger outcome indicators and meaningful ex-post evaluation. A 'measure less, measure better' standard should guide the next generation of EU regulatory impact assessment, one that judges regulation not by the density of its reporting obligations but by the magnitude of the behavioral change it induces. Yan et al. (2024) confirm that this design choice matters: regulations specifying environmental outcomes rather than technological means generate significantly larger innovation responses across their meta-analytic sample.

Second, market-based instruments and consumer-side incentives deserve substantially greater emphasis. The meta-analytic evidence in Yan et al. (2024) is unambiguous that flexible, market-based regulation, carbon pricing, tradeable permits, and interoperability mandates, generates stronger innovation incentives than prescriptive alternatives. Empowering consumers as active participants in innovation diffusion, through data portability rights, green procurement incentives, and transparent product labelling, can amplify demand-side pull that no supply-side regulation alone can generate. Bradford (2024) adds a systemic argument: where EU-level rules achieve genuine harmonization across member states, they ease rather than aggravate the compliance burden relative to fragmented national implementation. The priority, then, should be genuine single-market integration rather than deregulation as such.

Third, industrial policy must accompany, and in some cases precede, regulatory reform. As Mazzucato (2021) argues in her framework of mission-oriented innovation policy, transformative technological change requires patient, risk-bearing public investment that sets directional goals and coordinates public and private actors across the full innovation chain, from basic research through to market deployment. Europe's answer to the US Inflation Reduction Act and China's state-led model cannot be imitation, but it must be a credible third way that integrates public purpose with private capability. Concretely, this means reforming Horizon Europe around competitive use-case challenges rather than academic grant cycles, deploying European Investment Bank financing more systematically toward deep-tech scale-up, and using the 'clusters of integrations' institutional architecture to enable coalitions of willing member states to advance joint industrial strategies without the paralysis of unanimity.

4. Policy recommendations: insights from practice

The following recommendations draw on a confidential conversation held approximately ten European policymakers, industry representatives, academics, and regulation experts convened in the margins of the Siena Conference. The discussion was conducted under the Chatham House rule; what follows reflects the substance of the positions expressed, without attribution to any individual participant.

A first and widely shared point of departure was that the trade-off between regulation and innovation, while frequently invoked in public debate, is not an inherent or unavoidable condition. Participants observed that many of the EU's environmental regulations have in practice functioned as drivers of innovation rather than obstacles to it. Large corporations are already complying with frameworks such as the CSRD not merely out of legal obligation

but as a strategic tool to identify energy and climate-related risks. Some voluntary schemes adopted by leading firms go even further than the regulatory baseline. The problem, in this view, is less the existence of regulation than its design and, critically, its stability: even a well-crafted rule becomes a burden when revised continuously, before firms have had time to adapt and invest around it.

A second theme concerned the differentiated impact of regulation across firm size. Participants agreed that reducing sustainability requirements across the board is not the right response to the difficulties faced by smaller actors. The more targeted and appropriate instrument would be to introduce financial support, technical assistance, and transition bonuses specifically for SMEs, preserving the ambition of the overall framework while removing the disproportionate compliance burden from those least equipped to bear it. In this sense, the Omnibus simplification package and the Draghi report were seen not as rejections of the green agenda but as an opportunity to recalibrate implementation, provided the political will exists to hold the line on core objectives.

A third area of consensus concerned the quality of the regulatory process itself. Companies, participants stressed, above all want rules that are stable and understandable. Several called for a genuine shift toward co-creation in policymaking, in which firms and other stakeholders are engaged substantively before rules are finalised rather than consulted after the architecture has been set. Equally important is a serious commitment to ex-post evaluation: the gap between what regulations were expected to achieve and what they have actually produced is rarely examined, and the feedback loop from implementation experience back into the next round of rule-making remains weak. Making that loop systematic would, in the view of participants, do more to improve regulatory quality than any simplification package.

A fourth strand of discussion touched on emerging sectors that currently fall outside established regulatory frameworks, including the space economy, private use of space resources, and cryptofinance. Participants warned against two symmetric risks: regulatory vacuum, which leaves European citizens exposed to actors operating without accountability, and premature overregulation, which can foreclose innovation before its contours are understood. Approaches suggested included data sandboxes for controlled experimentation, use-case-based frameworks for crypto rather than infrastructure mandates, and public-private partnerships for space missions that embed regulatory expectations from the outset. The AI Act was noted as a case study in the difficulty of this balance, with some participants viewing it as a necessary safeguard.

Conclusion

The evidence reviewed here converges on a finding that is both reassuring and demanding: Europe's competitive shortfall is not caused by the fact of regulation, but by its design, prescriptive rather than outcome-based, fragmented across twenty-seven markets, and unaccompanied by the industrial policy needed to turn compliance into capability. The trade-off between regulation and innovation is real under these conditions, and largely self-inflicted. Fixing it requires three things at once: simplifying obligations without abandoning ambition, completing the single market so that rules work as a lever of scale rather than a source of friction, and pairing regulation with mission-oriented public investment that de-risks the transition for firms that cannot wait. PSSG 2 tried to turn this diagnosis into specific,

implementable proposals, ones concrete enough to survive contact with the political calendar and cross-partisan enough to outlast any single government.

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PSSSG 3: How Much Does Defending Ourselves Really Cost? Exploring Smart Ways to Build the Strength Needed for Strategic Autonomy in an Efficient Way²¹

In partnership with Ludovika University of Public Service

1. Why Europe Must Act

Europe's strategic environment has entered its most turbulent period since the end of the Cold War. The return of large-scale war to the continent, the weaponisation of trade, technology and energy, and intensifying rivalry among global powers have exposed vulnerabilities that accumulated during decades in which the European Union could rely on economic interdependence and U.S. security guarantees. Russia's aggression against Ukraine has acted as a catalyst for deeper European defence cooperation. As a result, European strategic autonomy, a contested political concept just a decade ago, has become a strategic and operational necessity. The core question is no longer whether the EU should

²¹ This section was authored Csaba Zalai (Professor of Practice, Head of the International Organisations Research Group at Ludovika University) and Anna Molnár (Head of the Department of International Security Studies at Ludovika University)

strengthen its capacity to act independently when necessary, but rather how it can do so efficiently, sustainably and at acceptable political and economic cost, while addressing other pressing priorities, such as the green and digital transitions, declining competitiveness and demographic change.

Russia's full-scale invasion of Ukraine in 2022 fundamentally shattered the assumption that Europe's security order was stable and predictable. The war has demonstrated that the EU lacks the military capabilities, industrial capacity, and strategic resilience required to deter or sustain high-intensity conflict on its own. The Niinistö Report (2024) on EU preparedness and readiness underlines that Europe must be ready for external armed aggression and warns that its defence industrial base is currently unable to meet even the ammunition and equipment needs generated by the war in Ukraine.

The challenge is therefore not only to spend more, but to spend better, faster and together, overcoming decades of underinvestment, fragmentation, and dependence on external suppliers. Recent U.S. policy messages have reinforced this reality, calling on Europe to assume greater responsibility for the conventional defence of the continent and place support for Ukraine on a credible long-term footing. At the same time, Europe increasingly faces hybrid threats that combine military and non-military instruments to destabilize societies and undermine democratic institutions. Russia has been actively deploying such methods against Europe. In this context, there is a growing need for comprehensive responses to challenges such as drone attacks, attacks on critical infrastructure, and foreign information manipulations and interference (FIMI).

However, the threats facing Europe extend far beyond Russia. The EU's Strategic Compass and Economic Security Strategy highlight a broader spectrum of risks: coercive economic practices, cyberattacks, hybrid operations, disinformation, terrorism, instability in the neighbourhood, and vulnerabilities in critical infrastructure, supply chains and space systems. The geo-economic environment has become increasingly adversarial, with major powers using trade, investment, export controls and access to critical resources as tools of strategic influence. The Draghi Report (2024) warns that the EU risks falling behind irreversibly unless it closes productivity and innovation gaps, strengthens industrial capacity, accelerates decarbonisation and enhances security-related capabilities. Competitiveness, resilience and defence can no longer be treated as separate policy domains. China's dominance in critical raw materials, batteries, solar panels, and rare earth elements creates structural dependencies that could be exploited in times of crisis. Europe imports over 90% of its rare earths from China and remains heavily dependent on Chinese processing capacity for lithium and other materials essential for defence, energy, and digital technologies. These dependencies directly impact Europe's capacity to manufacture missiles, drones, advanced sensors, and green technologies. In a world where supply chains are increasingly being weaponised, economic security has become national security.

Even the United States, Europe's closest ally, is a source of strategic uncertainty. Shifts in U.S. domestic politics, growing isolationist tendencies, and the strategic prioritisation of Indo-Pacific raise questions regarding the long-term reliability of American security guarantees. Measures such as the Inflation Reduction Act, export controls, and tariff-based industrial competition demonstrate that U.S. economic interests do not always align with Europe's. At the same time, Washington's global commitments, from the Indo-Pacific to the Middle East, inevitably constrain what can be dedicated to Europe. Recent operations such

as Operation EPIC FURY, together with ongoing commitments in the Strait of Hormuz, illustrate how U.S. military attention and defence-industrial capacity are stretched across multiple theatres. This reinforces the message that Europe must step up, not to replace NATO or the U.S., but to become a stronger and more capable pillar within the transatlantic alliance. In short, Europe faces military, economic, technological, and resource-based vulnerabilities simultaneously.

Strategic autonomy is therefore not about disengaging from allies or pursuing self-sufficiency. It is about ensuring that Europe has the capacity to decide, the capability to act and the resilience to withstand shocks when external support is delayed, limited or politically uncertain. A stronger, more capable Europe is not only essential for its own security, but also a prerequisite for a more balanced and sustainable transatlantic relationship.

2. How to Build Smart and Affordable Capabilities

The European defence market remains highly fragmented, insufficiently coordinated and structurally inefficient. This fragmentation is one of Europe's greatest strategic weaknesses, generating duplicate procurement, higher lifecycle costs, interoperability gaps and logistical complexity. At the same time, European NATO members remain heavily dependent on the United States for nuclear deterrence and for critical strategic enablers, including intelligence, surveillance and reconnaissance (ISR), air-to-air refueling, strategic airlift, ballistic missile defence and airborne electromagnetic warfare. A majority of these high-end enabling capabilities are still provided by the United States, underlining the urgency of a more balanced transatlantic burden-sharing model and stronger European capability ownership.

Recent strategic assessments, notably the Draghi and Letta Reports, have shaped the debate on how EU Member States should allocate defence expenditure in the coming years. Their central message is clear: Europe must spend more, but above all spend better, jointly, strategically and efficiently. The 2025 White Paper on European Defence marked a major shift in the Union's approach to security, industrial policy and preparedness. Its flagship framework, initially labelled ReArm Europe and later reframed as Readiness 2030, seeks to mobilise up to €800 billion in additional defence-related investment by 2030. This reflects the recognition that Europe faces interconnected crises and must strengthen its capacity to act. It also gives renewed momentum to the broader concept of a European Defence Union (EDU), still politically evolving, but increasingly visible as a framework for deeper integration of defence planning, capability development and industrial cooperation. These EU efforts are reinforced by NATO's commitment, agreed at the 2025 Hague Summit, to move towards 5% of GDP security and defence-related spending by 2035, including at least 3.5% of GDP for core defence requirements. This creates an opportunity to align NATO capability targets with EU industrial and financial instruments, avoiding duplication while strengthening the European pillar of the alliance.

Strategic autonomy is not about isolation or decoupling, but about reducing excessive dependencies and ensuring the freedom to act when necessary. This requires the creation of a genuine Single Market for Defence, capable of strengthening the European Defence Technological and Industrial Base (EDTIB). Today, Europe still suffers from too many platforms, too many national standards and too few common procurement programmes. To secure technological leadership and strategic resilience, the EU should prioritise investment in five key domains:

1. Artificial intelligence – for decision support, autonomous systems and data fusion.
2. Quantum technologies – for secure communications, sensing and resilient navigation.
3. Space capabilities – for geospatial intelligence, communications and strategic autonomy in positioning and timing.
4. Cyber defence – to protect critical infrastructure and develop credible deterrence.
5. Advanced manufacturing and dual-use innovation – including semiconductors, drones, robotics and resilient supply chains.

The European Commission is already assuming a stronger role through instruments such as the European Defence Fund (EDF), EDIRPA, SAFE and proposed European Defence Projects of Common Interest (EDPCIs). These tools represent an important shift toward common financing, joint procurement and cross-border industrial consolidation. However, lessons from previous initiatives, such as PESCO, CARD and EDF, show that institutional proliferation alone will not close capability gaps. Future instruments require predictable long-term funding, stronger implementation incentives, and better synchronisation of national defence planning cycles. Greater synergy between PESCO and EDPCIs is particularly important: the former offers an intergovernmental capability framework, while the latter provides a more supranational industrial-financing logic. Together, they can become complementary pillars of European defence integration.

In 2025, the Commission also identified four flagship projects: the European Drone Defence Initiative, Eastern Flank Watch, European Air Shield, and European Space Shield. These projects illustrate the scale of ambition required to create genuine pan-European strategic capabilities. For example, a continent-wide integrated air and missile defence architecture would require decades of sustained political commitment, substantial financial resources and large-scale industrial mobilisation. Successful civilian precedents such as Galileo and Copernicus, where the EU holds legal ownership and ensures common governance, offer useful institutional models. Similar arrangements should be considered for selected strategic defence assets where collective ownership would generate efficiencies and interoperability gains. Regional cooperation formats can also play a valuable supporting role. The Visegrád Four (V4), despite political divergences in recent years, retain potential as a practical platform for defence-industrial cooperation, joint maintenance hubs, ammunition production, military mobility, training and eastern flank resilience. Smaller regional formats can often move faster than EU-wide frameworks and later feed successful projects into broader European structures. Similar logic has been applied to Nordic, Baltic or Benelux cooperation models.

At the same time, Ukraine's integration into the European industrial defence architecture has already begun and needs to deepen further contributing to Europe's strategic resilience. Europe's changing relationship with the United States reinforces the need for a clearer strategic direction. The second Trump administration has accelerated debates about burdensharing, economic competition and long-term U.S. prioritisation of the Indo-Pacific. Whether or not transatlantic ties remain strong, Europe must be prepared for greater strategic responsibility. This requires updating its strategic doctrine. Earlier frameworks such as the 2016 Global Strategy and the Strategic Compass were important milestones, but they no longer fully capture the scale of current challenges posed by Russia, China, instability in the Middle East, technological rivalry and internal economic weakness. Europe therefore needs not only more money, but a smarter grand strategy: a renewed European Security

Strategy that links defence spending with industrial renewal, technological leadership, energy resilience and geopolitical credibility. Strategic autonomy will only be affordable if it is built efficiently, collectively and with clear priorities.

3. How to Finance and Deliver Those Capabilities

According to recent data from the European Defence Agency (EDA), the increase in defence spending across the EU represents a structural and sustained shift in Europe's security posture rather than a temporary response. Total defence expenditure was projected to reach €392 billion in 2025, or around 2.1% of GDP, reflecting a sustained upward trend driven by a deteriorating strategic environment. Data from the Stockholm International Peace Research Institute (SIPRI) reinforce this picture, showing that military spending by European NATO members in 2025 grew at the fastest rate since 1953. This highlights both Europe's push for greater defence capacity and increasing transatlantic pressure to strengthen burden-sharing within NATO.

At the same time, the Readiness 2030 initiative, which envisages up to €800 billion in additional fiscal space, signals a shift from incremental increases to systemic rearmament and large-scale capability development at Union level. If implemented, this could push spending towards or above 3% of GDP in the coming years, bringing the EU and European NATO members significantly closer to NATO's 3.5% target by 2035. In parallel, the European Commission's proposed 2028-2034 Multiannual Financial Framework further reinforces this pivotal shift, earmarking €131 billion for defence, space and security to strengthen strategic autonomy and support the European Defence Union. Its simplified structure and focus on partnership and innovation in defence industry helps to achieve broader competitiveness goals, to reduce capability gaps, and to enhance the readiness of European armed forces by 2030.

Overall, from a macroeconomic perspective, the conditions for a substantially stronger European defence posture are increasingly in place, even under scenarios of significantly reduced U.S. engagement. Recent analyses, including a joint assessment by Bruegel and the Kiel Institute for the World Economy, suggest that such an increase in defence spending could be sufficient for Europe to defend itself, assuming an effective U.S. withdrawal from Europe. However, this trajectory remains contingent on addressing persistent challenges related to efficiency, coordination and the absorptive capacity of the European defence industrial base. In this context, a second edition of the SAFE loans programme beyond 2030 would be essential to support industrial scaling, enable more effective joint procurement and create the fiscal space required for Member States to sustain elevated defence spending levels over the long-term. Additional defence spending should primarily reinforce the ongoing shift towards higher investment shares within national budgets, particularly in research, development and procurement of advanced capabilities. According to EDA, Member States allocated around 31% of total defence expenditure to investment in 2024, the highest level ever recorded. Within this framework, additional resources should be strategically directed towards building a comprehensive EU-wide digital infrastructure, including cybersecurity, cyber defence, AI, cloud technology and secure data-sharing systems. Public-private partnerships between defence and civilian tech sectors can enhance innovation and competitiveness in the field of dual-use. Start-ups are especially important in delivering cutting-edge yet cost-effective solutions. To achieve this, it is necessary to bring together major defence industry companies and start-ups. Life-cycle

costing planning (emphasis of total cost of investment from procurement to maintenance, training and upgrade) are crucial for long-term sustainability.

At the same time, the growing use of AI, autonomous systems and other disruptive technologies raises ethical and legal concerns. Europe should therefore establish common EU-level regulatory principles and operational standards to ensure innovation remains consistent with democratic values and international law. Despite the challenges faced by NATO during the second Trump administration, NATO and the U.S. remain the cornerstone of European defence in the long-term, primarily because of U.S. nuclear deterrence and integration capacity, including the intelligence architecture, satellite communications, and precision strike capability.

EU capability development initiatives and the CSDP should therefore be understood as complementing and strengthening the European pillar of the transatlantic alliance. Coherence between the EU standards (EDSTAR) and NATO STANAGs is essential to avoid duplication and ensure interoperability. National sovereignty concerns often hinder deeper integration in the field of defence. In this context, Mario Draghi's proposal of pragmatic federalism offers a realistic path forward: coalitions of willing Member States should be enabled to advance integration in a flexible and scalable manner in the field of defence. At the same time, cooperation should remain open and inclusive, extending to non-EU European NATO members, particularly key military and political actors such as the United Kingdom and Turkey. Targeted regional specialisation in joint procurement and capability development, such as among V4 countries, can also help reduce duplication, generate economies of scale and accelerate delivery.

The succession of external crises and the fundamental shifts in geopolitics have done what years of internal debate could not: for the first time in decades, there is broad political consensus that the EU must assume far greater responsibility for its own defence. Recent EU initiatives have expanded both the fiscal and institutional space for Member States to make the major investments required, enabling most European NATO members to reach the 2% GDP benchmark and anchoring a more coherent European pillar within the transatlantic alliance. Analytical frameworks provided by the Draghi, Letta and Niinistö Reports further contribute to translating strategic autonomy from political ambition into capability-driven agenda. 4. Main Policy Recommendations Building on the analysis above, Europe should adopt a multi-track approach that simultaneously strengthens NATO, develops flexible European cooperation formats and leverages EU-level instruments more effectively.

- Maintain a strong transatlantic alliance while reducing key dependencies.
- Strengthen the European pillar within NATO through greater European leadership, coordination and alignment with EU instruments.
- Develop flexible European security formats by linking regional initiatives and enabling rapid decision-making by coalitions of willing states.
- Use the EU as the main industrial and financial driver by deepening the defence single market, expanding joint procurement and integrating key partners.
- Translate higher spending into real capability by prioritising key gaps – especially in strategic enablers – improving governance and reducing fragmentation.

Ultimately, Europe's challenge is not only one of resources, but of organisation, governance and political will. Increased defence spending will only translate into real strategic autonomy

if it is embedded in coherent institutional frameworks and aligned with clear operational priorities.

PSSG4: A Union of Unions: Pragmatic Federalism as Multidimensional Project for the EU Reform²²

In partnership with LUISS

1. Executive Summary

The demise of the Liberal International Order (LIO) — the placenta of European integration — imposes the EU to undergo a paradigm shift. In a fragmented global arena, Europe risks marginalisation and paralysis leaving Europeans “truly alone together, squeezed between the United States and China”²³. The emergence of Pragmatic Federalism (PF) reflects an urgent push to counter decline and reform European integration. As a proactive political project, PF aims to bypass the EU’s slow decision-making and unanimity traps. Championed by Mario Draghi, it is framed as the only viable path for Europe “to act with the speed, scale and intensity of other global powers”²⁴, amid a lack of central governance in strategic fields. Ultimately, PF seeks to revitalise the Union by using flexible, issue-oriented coalitions to achieve federalist ends.

This paper analyses the Europeanist rhetoric for EU renovation through a political and institutional lens across four stages. Section 2 maps the structural problems PF addresses. Section 3 conceptualises PF as a modular method for strategic autonomy, built on a network of sectorial coalitions around a reformed, Brussels-based federal core – a model termed “Union of the Unions”. Section 4 zooms into specific clusters – Defence, Space and AI – to demonstrate PF’s potential in sensitive domains where differentiated integration is already emerging. Section 5 offers two pragmatic and operationalising scenarios, namely a more pragmatic, short-term and intergovernmental approach, and the Union of Unions, which is the central argument. This structured version of PF could recalibrate the existing EU institutional framework around policy clusters, bypassing the need for a constitutional overhaul and treaty change. However, the final paragraph presents an alternative scenario: the federal leap. This distant scenario envisions the reform of the Commission and has the potential to achieve the primary objective of PF by transcending the inherent limitations of cluster integration without any institutional reform.

Overall, PF offers a flexible, incremental alternative to a federal “big bang”. In Defence, Space, and AI, it drives integration via coalitions of the willing and the strategic use of existing EU mechanisms where common policies are urgently required. While the “immediate pragmatism” represents the direct action, yet clusters per se do not foster public engagement, the model faces questions of democratic legitimacy. The Union of Unions project avoids an executive-centric system; hence, a holistic strategic vision must guide these coalitions, and supranational institutions must retain popular mandate. However, without a shared strategic direction, the EU could drift toward fragmented governance, unstable coalitions, and competing interests. Ultimately, political creativity is insufficient without political direction. Achieving a more autonomous, agile, and united

²² This section was authored by Anna Magnabosco, Greta del Grosso, Micaela Vitagliano, Paolo Marcelli, Enrico Ciappi and Giulia Ongari.

²³ Mario Draghi, ‘Speech by Prof. Mario Draghi at the Charlemagne Prize Ceremony in Aachen, Germany’, Charlemagne Prize Ceremony, Aachen, Germany, 2026.

²⁴ Mario Draghi, ‘Mario Draghi: The Pragmatic Federalism Doctrine’, Groupe d’études Géopolitiques, 2025, <https://geopolitique.eu/en/2025/10/24/mario-draghi-the-pragmatic-federalism-doctrine/>.

Europe depends less on institutional design than on the willingness of European leaders to commit to the destination.

2. The (worrisome) State of the Union

2.1 Status Quo

Presently, the EU's governance model suffers from structural weaknesses embedded in the logic of the treaties. Overall, the EU represents a “compound union”: a constitutional hybrid (neither an international organisation nor a federal state) characterised by multiple overlapping demoi, asymmetric competences, and the absence of a single sovereign locus of decision²⁵.

The political equilibrium is under growing strain. Sovereigntist movements have reshaped domestic landscapes across member states (MSs), making intergovernmental consensus harder to achieve and sustain, while repeated crises increasingly expose the need for faster and more coherent collective action. Yet, the Union lacks the normative authority to compel MSs to bridge these gaps²⁶. Even though the system's legitimacy has historically rested on policy outputs rather than democratic inputs, the accumulation of missed responses is now directly eroding that output legitimacy²⁷.

In this era of overlapping crises, citizens no longer experience the Union through market freedoms, rather, through discrepancies: uneven crisis responses, diverging national measures and the absence of a unified European voice. It is precisely against this backdrop that PF emerges as a response.

2.2 Structural Weaknesses: The Competence Deficit and the Joint-Decision Trap

The principle of conferral under Article 5(2) TEU has contributed to a systematic competence deficit in the areas where collective action is most needed: defence, taxation, foreign policy, social protection. These remain intergovernmental domains subject to veto and voluntary coordination.

The combination of shared competences and unanimity requirements produces the joint decision trap²⁸: decisions emerge only at the lowest common denominator. The shift of the EU's centre of gravity toward the European Council, institutionalising “new intergovernmentalism”, has made this trap a permanent feature of crisis management rather than a temporary legislative hurdle²⁹. Meanwhile, the treaty architecture itself encodes an asymmetry: Articles 26 and 114 TFEU provide robust Qualified Majority Vote (QMV)

²⁵ Sergio Fabbrini, *A Federalist Alternative for European Governance: The European Union in Hard Times* (Cambridge University Press, 2025), <https://doi.org/10.1017/9781009573061>.

²⁶ Markus Patberg, ‘Against Democratic Intergovernmentalism: The Case for a Theory of Constituent Power in the Global Realm’, *International Journal of Constitutional Law* 14, no. 3 (2016): 622–38, <https://doi.org/10.1093/icon/mow040>.

²⁷ Andreas Follesdal and Simon Hix, ‘Why There Is a Democratic Deficit in the EU: A Response to Majone and Moravcsik’, *JCMS: Journal of Common Market Studies* 44, no. 3 (2006): 533–62, <https://doi.org/10.1111/j.1468-5965.2006.00650.x>.

²⁸ Fritz W. Scharpf, ‘THE JOINT-DECISION TRAP: LESSONS FROM GERMAN FEDERALISM AND EUROPEAN INTEGRATION’, *Public Administration* 66, no. 3 (1988): 239–78, <https://doi.org/10.1111/j.1467-9299.1988.tb00694.x>.

²⁹ Christopher J. Bickerton et al., ‘The New Intergovernmentalism: European Integration in the Post-Maastricht Era’, *JCMS: Journal of Common Market Studies* 53, no. 4 (2015): 703–22, <https://doi.org/10.1111/jcms.12212>.

mechanisms for negative integration (barriers removal), while positive integration (construction of common institutions and policies) is systematically subjected to stricter competence limits and unanimity.

2.3 Institutional Asymmetry: The Marginalisation of Supranational Authority

In order to establish a realistic form of federalism (the Union of the Unions), a federal core is required. The Commission could be such a linchpin. In the last few years, the Commission has reasserted a degree of political initiative, as shown by the European Green Deal and the Next GenEU, acting as negotiator in domains where fragmented intergovernmentalism had previously prevailed. These developments signal that the Commission retains a latent capacity for supranational leadership that should not be dismissed.

Yet, this recovery remains partial and precarious. The progressive empowerment of the European Council over the past three decades has not been reversed. Despite Article 15(1) TEU's explicit prohibition on legislative functions, the European Council continues to shape the Union's political agenda, concentrating executive authority among heads of government. The Commission's recent assertiveness has largely operated within the limits set by that intergovernmental framework, rather than overcoming them. Moreover, the unanimity rule governing treaty revision and constitutional questions gives every Member State (MS) a structural veto. In a Union of twenty-seven members, this guarantees the lowest common denominator. The pathology is recursive: abolishing unanimity itself requires unanimity. The EU cannot, through existing procedures, reform its own decision-making rules.

Yet centrality within a flawed framework is not the same as the institutional authority a federal core would require. PF calls on the Commission to transcend the boundaries that the current institutional architecture has impeded.

2.4 Differentiated Integration: A Tool, Not a Substitute for Reform

The EU has already developed extensive differentiated integration arrangements, from opt-outs formalised in Protocol No. 22, to enhanced cooperation procedures under Article 20 TEU and Articles 326–334 TFEU, allowing subsets of MSs to advance integration without requiring universal participation.

PF is a form of differentiated integration, but a peculiar one vis-à-vis the existing ones. So far, differentiated integration has manifested along three axes³⁰: time (multi-speed integration, where all states share a destination but proceed at different paces); space (variable geometry, where states may permanently opt out of certain policy areas); and policy areas (à la carte integration, where states choose which policies to join). This phenomenon has grown substantially since the 1990s, producing an increasingly fragmented governance landscape where "the EU" refers not to a single polity but to a complex of overlapping integration circles³¹.

³⁰ Alexander C-G. Stubb, 'A Categorization of Differentiated Integration', *JCMS: Journal of Common Market Studies* 34, no. 2 (1996): 283–95, <https://doi.org/10.1111/j.1468-5965.1996.tb00573.x>.

³¹ Katharina Holzinger and Frank Schimmelfennig, 'Differentiated Integration in the European Union: Many Concepts, Sparse Theory, Few Data', *Journal of European Public Policy* 19, no. 2 (2012): 292–305, <https://doi.org/10.1080/13501763.2012.641747>.

This fragmentation risks entrenching a core–periphery structure whereby smaller or less wealthy MSs are permanently excluded from the deepest levels of integration³². PF seeks to channel these instruments toward a more federal setting, one assumed to deliver more coherent, accountable, and politically integrated governance.

2.5 Unexpressed Constitutional Potential

A striking feature of the EU's constitutional landscape is the gap between what the treaties formally authorise and what has been implemented. The treaty framework already contains the tools for a more ambitious integration without revision.

The potential of enhanced cooperation under Article 20 TEU, read with Articles 326–334 TFEU, provides a clear safety valve against the veto trap, allowing willing MSs to establish binding common rules. The Passerelle clauses (Article 48(7) TEU for general matters and Article 31(3) TEU for foreign policy) permit the European Council to switch specified decision-making procedures from unanimity to QMV without treaty revision. Their persistent non-activation proves that the EU's current paralysis is driven as much by political risk aversion as by legal design.

PF can transform EU legislative powers without treaty change. It requires activating the opportunities already embedded in the existing treaty framework. PF is, above all, a deliberate choice about how to use the powers the treaties already provide; a choice whose political conditions are still maturing, and whose timing cannot, at this stage, be determined with any analytical precision.

3. Conceptualising Pragmatic Federalism

3.1 What is and what is not

The whole debate on PF is still conditioned by semantic and, therefore, conceptual ambiguity. This latter is calculated and political: PF represents a public appeal that facilitates convergence among a variety of Europeanist policymakers and movements sharing the bold principle of a more ambitious global Europe, but not the same interpretation of the means, implications and potential drawbacks of this shift.

While ambitious, PF is not revolutionary action invoking a federal ‘big bang’. While PF supporters may dream of the United States of Europe, they are not claiming its urgent establishment as the sole way to express the EU’s potential. As a matter of fact, PF requires no Hamiltonian moment nor imposes any clear separation of powers between the federal and the national level.

Instead, PF prescribes better coordination, adaptability and creativity: the EU should protect its core values and interests in case of crisis, relying on its forces, on its political versatility, operative flexibility, and economic preparedness. Indeed, PF resembles another key notion of the so-called geopolitical turn of EU politics: strategic autonomy. Indeed, PF serves the cause of strategic autonomy as it reshapes the very functioning of the Union to better mobilise its own resources, reduce external dependencies and implement common policies in key strategic fields. Strategic autonomy and PF are both designed to expand the EU’s room for manoeuvre whenever needed, through better shock absorption, diversification of

³² Nicole Koenig, A Differentiated View of Differentiated Integration, Policy Paper no. 140 (Jacques Delors Institut Berlin, 2015).

alliances and retaliation³³. From this perspective, strategic autonomy, PF and cluster integration constitute a trinity at the core of the dominant Europeanist consensus: they represent the main objective, the method of integration and the institutional framework, respectively.

Accordingly, we dare to define PF as follows: a modular integrative method aimed at achieving EU strategic autonomy step by step, through cluster integration with variable geometries. PF realises closer union by reshuffling the EU as an umbrella organisation made of issue-specific coalitions or voluntary sub-Unions, in which supranational and national authorities jointly execute common policies around shared strategic interests.

This definition is based on four core conceptual pillars:

The first is the “coalition of the willing”. Instead of demanding unanimity or forcing all MSs to move at the same pace, PF views integration as being driven by specific groups of states aligning around a common vision. MSs wishing to halt progress, in this sense, cannot hold back those with higher ambitions, though non-participating states retain the option of joining later³⁴.

The second is feature is that of “bottom-up democratic legitimacy” which envisions, rather than a top-down imposition, choosing to opt-in to the aforementioned coalitions needing to first secure democratic support at the domestic level over strategic shared goals (Draghi, 2025). Thirdly, PF is characterised by de facto integration. It avoids grand institutional overhauls and relies on concrete political actions, possibly outside the existing EU institutional framework.

Lastly, PF is characterised by a dialectic view of the EU breaking down the dichotomy between a confederation and a federation. It acknowledges that the EU can operate with confederal decision-making in some areas and federal authorities in others, allowing for a fluid transition depending on the subject matter³⁵.

While the actual shape of European PF is unknown given its novelty, we should bear in mind that PF has already been applied in other (federal) countries, like Australia. There, PF is traditionally defined as an ad hoc, problem-oriented approach characterised by experimentalist and anti-foundationalist components which translates to a mode of flexible, multi-speed, and issue-specific frameworks³⁶

³³ Riccardo Alcaro, ‘Running in Circles: How Europe’s Quest for Autonomy Creates New Dependencies’, *Survival* 68, no. 2 (2026): 85–116, <https://doi.org/10.1080/00396338.2026.2647641>.

³⁴ Draghi, ‘Mario Draghi’; Sébastien Maillard, ‘Draghi Wants Real Decision-Making Power in Europe, Not a Federal Big Bang | Chatham House – International Affairs Think Tank’, 29 January 2026, <https://www.chathamhouse.org/2026/02/draghi-wants-real-decision-making-power-europe-not-federal-big-bang>.

³⁵ Francisco Balaguer Callejón, ‘Una Nuova Architettura Politica per l’Europa. Il Federalismo Pragmatico Di Draghi Nel Corso Della Storia’, *Federalismi.It, Rivista Di Diritto Pubblico Italiano, Comparato, Europeo*, no. 9 (2026), <https://federalismi.it/AppIOpenFilePDF.cfm?artid=53292&dpath=document&dfile=25032026184138.pdf&content=Primo%2Bpiano%2B%2D%2BUna%2Bnuova%2Barchitettura%2Bpolitica%2Bper%2BI%27Europa%2E%2BII%2Bfederalismo%2Bpragmatico%2Bdi%2BDraghi%2Bnel%2Bcorso%2Bdella%2Bstoria%2B%2D%2Bstato%2B%2D%2Bpaper%2B%2D%2B>.

³⁶ Robyn Hollander and Haig Patapan, ‘Pragmatic Federalism: Australian Federalism from Hawke to Howard’, *Australian Journal of Public Administration* 66, no. 3 (2007): 280–97, <https://doi.org/doi:10.1111/j.1467-8500.2007.00542.x>; Amanda Smullen, ‘Conceptualising Australia’s

3.2 Problems and Contradictions

Although the debate over PF is still in its infancy, it is growing rapidly. Clashes over its applicability, viability and desirability are already visible. Firstly, tensions revolve around the term 'federalism' itself, which could act as an unnecessary lightning rod that inflames, polarizes and creates divisions in European politics³⁷. In countries like France, the term is virtually a taboo, risking a teleological debate about the nature of the EU which directly contradicts the “pragmatic” intent of the proposal.

In addition, a significant practical contradiction is raised regarding the timeline of this approach. The current era is one of rapid technological and geopolitical ruptures that require immediate responses. The deliberate consensus-building nature of pragmatic coalitions may simply be too slow to address these urgent, existential threats, making the “pragmatic” process potentially incompatible with the necessity for rapid EU action.

One factor that could profoundly alter any reform plan inspired by PF is enlargement. In fact, the number, composition and logic of the clusters would change enormously as the number of candidates and MSs fluctuates. How many members will the EU have: 27, 30, 35 or 50? How many political actors can a Union of Unions accommodate? Enlargement will strengthen the Union of the future, but territorial or ideological-based subUnions might jeopardise EU unity.

Besides, there is a longstanding contradiction regarding whether the EU can ever be truly democratic without becoming a formal federal state. However, the democratic dimension raises another issue: whether it is necessary to create a European people(s), and the capability of European patriotism to facilitate the Europeanisation of core state powers.

Draghi's PF aligns with a modern legal interpretation that the EU does not need to become an overarching state. Rather, it can exist as a democratic union of democratic states³⁸. This “democratic turn” would be highly innovative, given the traditionally top-down and executive-centric nature of EU functional integration. In fact, deciding to opt-in to sectorial initiatives like PESCO has historically based on executive-driven initiatives and thus lacked broad democratic processes. Aside from select referenda in few MSs, these integration steps were primarily driven by national governments without direct public consultation.

Reconciling pragmatic execution with genuine democratic participation is one of the most daunting challenges of PF. In fact, functional sector-by-sector pragmatic integration may not ultimately foster citizen engagement or lead to a political federation.

4. Pragmatic Federalism Across Policy Areas: Defence, Space, and Artificial Intelligence

PF expands the scope of EU action into new strategic areas where the EU's voice remains weak and contested. To examine the features and potential implications of this flexible approach, this section compares three key strategic sectors where geoeconomics and

Tradition of Pragmatic Federalism', Australian Journal of Political Science 49, no. 4 (2014): 677–93, <https://doi.org/10.1080/10361146.2014.964660>.

³⁷ Maillard, 'Draghi Wants Real Decision-Making Power in Europe, Not a Federal Big Bang | Chatham House – International Affairs Think Tank'.

³⁸ Jaap Hoeksma, Pragmatic Federalism and the Constitutional Identity of the EU – TEPSA, 2025, <https://tepsa.eu/analysis/pragmatic-federalism-and-the-constitutional-identity-of-the-eu/>.

geopolitics converge, namely Defence, Space and AI, which have recently experienced the most significant shifts in European differentiated integration. Although historically kept under distinct mandates, these fields have become deeply structural and, at times, codependent. It shall be noted that these three clusters serve primarily as an example of how this framework can be applied. The same logic can be extended to other policy areas (e.g. energy, industrial policy etc.).

4.1 Defence

The fragmented attempts for integration established a precedent: when uniform and traditional integration fails, alternative and flexible mechanisms arise. This led to the foundational rationale for PF, which emerges as a necessary framework when analysing the current defence institutional architecture. The Common Foreign and Security Policy (CFSP) stands out from all other policies of the Union due its intergovernmental character: a domain, therefore, fundamentally in the hands of the States despite the mutual defence clause and voluntary mechanism of enhanced cooperation introduced by the Lisbon Treaty³⁹.

The geopolitical instability of the last decade has introduced new challenges, addressed by recent institutional acts redefining the defence architecture through a more pragmatic lens. Noteworthy is the ReArm Europe Plan⁴⁰, aiming at strengthening European resilience and strategic autonomy. Rather than pursuing traditional, top-down integration, the plan relegates the role of the Commission only to that of administrative oversight, managing financial incentives while leaving procurement and strategic decisions in national hands. This demonstrates that while MSs remain deeply reluctant to surrender formal military sovereignty, they are increasingly open to flexible, functional systems.

Considering also the legal roadblocks to a single European army, PF emerges not as a mere alternative, but as the only realistically viable way. Instead of or in between pure intergovernmental cooperation and fully integrated EU defence, PF supporters envisage a third way: cluster integration. The defence framework is not a unitary system; it is split into distinct, overlapping “modes of governance”, such as the *coordination mode* of PESCO and the *financial-industrial mode* of the European Defence Fund⁴¹. While traditional critics argue that flexible coalitions remain short-term and strictly intergovernmental, PF bypasses this limitation when anchored to supranational EU resources. Within this framework, the Commission acts as a policy entrepreneur, utilising financial incentives to institutionalise industrial cooperation. A semi-federal output – collectively developed capabilities and shared supply chains – stems from mini-lateral inputs, avoiding the need for formal Treaty revisions. Yet, the current fragmentation allows MSs to prioritise national autonomy and vetoes, stalling progress.

PF provides the ideal mechanism to bypass legal and bureaucratic obstacles, allowing smaller, highly capable coalitions of willing countries – such as the core military group – to voluntarily deepen defence cooperation through concrete actions based on deliberate

³⁹ Luigi Daniele, ed., *Diritto dell'Unione europea: sistema istituzionale, ordinamento, tutela giurisdizionale, competenze*, Nona edizione (Giuffrè Francis Lefebvre, 2024).

⁴⁰ Sebastian Clapp et al., *ReArm Europe Plan/Readiness 2030* (EPRS European Parliamentary Research Service, 2025).

⁴¹ Tuomas Iso-Markku and Niklas Helwig, ‘The EU’s Fragmented Defence Governance: Different Rationales, Different Logics and Different Actors’, *European Security* 0, no. 0 (2026): 1–19, <https://doi.org/10.1080/09662839.2026.2633370>.

national choice. A PF approach would enable Europeans to experimentally consolidate military demand, optimise economies of scale, and give operational substance to the mutual defence clause.

4.2 Space Policy

Space governance is structured around access, coordination, and resilience, making it dependent on collective technical and financial capacities that no single MS can sustain alone⁴². This functional necessity historically produced a fragmented “governance triangle” involving the MSs, the EU, and the European Space Agency (ESA)⁴³. This sector serves as a primary laboratory for PF, demonstrating how the Union can develop federal-style capacities through sectoral integration where collective action is required for survival in a contested global environment. Driven by functional necessity, EU integration in this domain advanced through mechanisms of layering and conversion, incrementally adding security objectives to civilian programs like Galileo and Copernicus⁴⁴. This shift marks a transition from merely using space data for terrestrial needs toward the active protection of the orbital environment⁴⁵.

This evolution operates within the complex constitutional limits of the Lisbon Treaty. Article 189 TFEU grants the Union a specific competence in space but explicitly excludes the “harmonisation” of national laws. To bypass this “unanimity trap”, the proposed EU Space Law (2025) pragmatically utilises Article 114 TFEU as its legal basis.

A critical element of this transformation is the restructuring of European Union for the Space Program Agency (EUSPA) into the European Union Space Services Agency (EUSSA). Proposed in April 2026, the Agency transforms from a management body into the Union’s 24/7 operational arm for security and service delivery. This move clarifies the institutional boundaries with the ESA, which remains an independent intergovernmental organisation focused on R&D, while the new Agency ensures the operational protection of sovereign infrastructures⁴⁶.

However, European strategic ambitions remain constrained by severe technological dependencies, exposed by the “Starlink incident”. Addressing these vulnerabilities requires strengthening sectors such as space infrastructures and satellite communications. In this context, opening such initiatives to strategic non-EU partners (Canada) illustrates the flexibility of PF, which functions as an open “Policy Union” to build the industrial scale

⁴² Giulia Pavesi and Jan Wouters, ‘The Final Frontier? The European Union and the Governance of Outer Space’, *Journal of European Integration* 45, no. 8 (2023): 1199–217, <https://doi.org/10.1080/07036337.2023.2274885>; Philip De Man and Jan Wouters, ‘EU Space Governance at the Threshold of A New Era’, *Global Policy*, 2026, 1–5, <https://doi.org/10.1111/1758-5899.70030>.

⁴³ Gustavo G. Müller and Philip De Man, ‘Incremental Shifts, Strategic Orbits: The Evolution of EU Space Policy Through Gradual Security Linkages’, *Global Policy*, 2026, 1–13, <https://doi.org/10.1111/1758-5899.70125>.

⁴⁴ Balaguer Callejón, ‘Una Nuova Architettura Politica per l’Europa. Il Federalismo Pragmatico Di Draghi Nel Corso Della Storia’.

⁴⁵ Müller and De Man, ‘Incremental Shifts, Strategic Orbits’; Angeliki Papadimitriou et al., ‘Perspective on Space and Security Policy, Programmes and Governance in Europe’, *Acta Astronautica* 161 (August 2019): 183–91, <https://doi.org/10.1016/j.actaastro.2019.05.015>.

⁴⁶ Heuking Space Law, ‘The Proposal for a New EUSPA Regulation: Key Changes, Practical Effects, and Recommended Actions for Stakeholders’, 2026, <https://www.heuking.de/en/news-events/newsletter-articles/detail/the-proposal-for-a-new-euspa-regulation-key-changes-practical-effects-and-recommended-actions-for-stakeholders.html>.

necessary for survival⁴⁷. This reveals the emergence of a “community of destiny” in orbit, where the EU acts as an umbrella of Policy Unions⁴⁸.

4.3 Artificial Intelligence

Artificial Intelligence (AI) represents one of the most prominent fields in which the EU regulatory power is overcoming national autonomies. Global AI governance is a varied landscape: the US adopts a decentralised agency-base framework and the Chinese a centralized strategy⁴⁹. The EU strategy instead represents distinct approach in this area, with the adoption of the Regulation 2024/1969 (AI Act). The framework assumes a central control but delegates further implementation to national authorities. This exemplifies an attempt by the supranational institutions to adopt PF and, consequently, to broaden the scope of the Union. The Commission profited from the internal market powers to sneakily enforce a supranational and centralised strategy on AI. To pursue this objective, the EU established the European AI office, a centralised and supranational body among the branches of the European Commission, which will exercise a direct enforcement of the Act, by supervising and monitoring AI models across all MSs, from August 2026⁵⁰.

Notably, the EU’s PF path in AI governance has proceeded with friction from Germany and France. The two countries stopped the final stages of the negotiations, since they feared the Commission threatening their national champions, Mistral AI and Aleph Alpha⁵¹. This resistance exemplifies the core dynamic of the PF, namely the advancing of integration through regulatory momentum and not through consensus. Furthermore, the defence sector was explicitly excluded from the scope for the Act, because of institutional necessity, also due to the choice by MSs to preserve autonomy in a strategically sovereign domain. Debate persists over whether PF in AI governance is consolidating or still fragile. While some argue the EU regulatory power cannot effectively shape the AI field⁵², optimists contend a unified approach will successfully drive institutional reconfiguration⁵³. In conclusion, the PF approach represents the line of action in which the EU is progressing, but with the resistances of MSs, the achievements the institutions are carrying might be constrained.

5. Conclusion: From Pragmatic Steps to Federal Leaps Forward

To realise actionable declinations of PF, this paper puts forward two scenarios for operationalising the PF paradigm. However, we also acknowledge that in order to achieve

⁴⁷ Benjamin Leruth and Christopher Lord, ‘Differentiated Integration in the European Union: A Concept, a Process, a System or a Theory?’, *Journal of European Public Policy* 22, no. 6 (2015): 754–63, <https://doi.org/10.1080/13501763.2015.1021196>.

⁴⁸ Müller and De Man, ‘Incremental Shifts, Strategic Orbits’.

⁴⁹ Amir Al-Maamari and Abdulatif Alabdulatif, ‘Between Innovation and Oversight: A Cross-Regional Study of AI Risk Management Frameworks in the EU, UK, and China’, 2025, 1–5.

⁵⁰ Emanuele Parisini, ‘Governing Artificial Intelligence in the Defence Sector: A Comparative Analysis of EU and US Institutions’, *Global Public Policy and Governance* 5, no. 2 (2025): 114–38, <https://doi.org/10.1007/s43508-025-00115-x>.

⁵¹ Raluca Csernatoni, ‘The EU at the Helm? Navigating AI Geopolitics and Governance, Charting the Geopolitics and European Governance of Artificial Intelligence (Carnegie Endowment for International Peace, 2024), 9–15, <https://www.jstor.org/stable/resrep58111.6>.

⁵² Andrea Calderaro and Stella Blumfelde, ‘Artificial Intelligence and EU Security: The False Promise of Digital Sovereignty’, *European Security* 31, no. 3 (2022): 415–34, <https://doi.org/10.1080/09662839.2022.2101885>.

⁵³ Parisini, ‘Governing Artificial Intelligence in the Defence Sector’.

a significant leap forward, there is an inherent need to transcend the PF paradigm and go beyond its established boundaries.

5.1 Immediate Pragmatism

In its most feasible yet modest conceptualisation, PF can be realised now as a technocratic show run by national and supranational executive authorities, cooperating in strategic fields in the name of efficiency. This version of PF builds upon existing institutional structures and decision-making mechanisms and can be implemented in the short-term with minimal procedural adjustments.

This purely functional path would firstly include MSs executives voluntarily deciding to opt-in in Coalitions of the Willing in a few areas of strategic interest aligned with the EU's strategic agenda. According to this setting, the democratic legitimacy would only derive from national executive mandates through democratic elections at the domestic level. From a supranational perspective, the legitimacy of EU clusters would be based on outcomes and EU citizens are mere beneficiaries rather than agents of change⁵⁴.

To move beyond this scenario, the Union must transition toward a model of a "Parliamentary Union"⁵⁵. PF can increase its democratic credentials by holding each cluster (i.e. the unions of the Union) accountable to specific European Parliament's committees, as will be further explored in the next section.

5.2 A Union of Unions

To realise the aforementioned Parliamentary Union, the EP should be involved and ensure supranational oversight over clusters' activities. Specifically, a committee should be formed for each functional cluster, either by creating one ad hoc or by extending existing mandates⁵⁶. By establishing distinct supervision for Defence, Space, and AI, the Parliament can directly monitor new operational bodies, such as the European Union Space Services Agency (EUSSA)⁵⁷. This framework transforms PF's "regulatory momentum" into a legitimate "repertoire of governance"⁵⁸, generating federal-style outcomes from functional necessity while upholding the Union's identity as a "democratic union of democratic states"⁵⁹.

From this perspective, the EU of the future appears as an umbrella organisation or common political platform from which many other voluntary sub-Unions, made of a variable number of national and supranational institutions, might flourish.

As highlighted in section 4, Defence, Space, and AI provide us a privileged look at the potential features and implication of PF in key strategic domains at the crossroads of geoeconomics and geopolitics. In these critical sectors, the PF approach seems the only feasible and adequate way to bypass systemic paralysis and safeguard European sovereignty at the same time. In these domains traditionally hampered by bureaucratic

⁵⁴ Balaguer Callejón, 'Una Nuova Architettura Politica per l'Europa. Il Federalismo Pragmatico Di Draghi Nel Corso Della Storia'.

⁵⁵ Sergio Fabbrini, *Which European Union? Europe after the Euro Crisis* (Cambridge University Press, 2015), <https://doi.org/10.1017/CBO9781316218945>.

⁵⁶ Leruth and Lord, 'Differentiated Integration in the European Union'.

⁵⁷ Heuking Space Law, 'The Proposal for a New EUSPA Regulation'.

⁵⁸ Balaguer Callejón, 'Una Nuova Architettura Politica per l'Europa. Il Federalismo Pragmatico Di Draghi Nel Corso Della Storia'.

⁵⁹ Hoeksma, *Pragmatic Federalism and the Constitutional Identity of the EU – TEPSA*

roadblocks, PF offers a mechanism that involves a shift from total consensus to targeted action, allowing highly capable coalitions of willing countries to voluntarily deepen cooperation in specific fields. The Union can successfully escape the “unanimity trap”, by establishing shared infrastructures while formally respecting national sovereignty.

In this sense, the Union of the Unions is a sub-optimal solution compared to a treaty change or constitutional turn. But PF’s fundamental premise is precisely this: the EU risks paralysis and passivity if it waits for an unlikely constitutional change. Political creativity, not normative elegance, must guide the reform process.

While it is questionable to predict the exact timing of this shift, we can assume that it would be conditioned by the electoral cycles concluding in Estonia, France, Greece, Italy, Spain, Slovakia and Poland through 2027/2028, as well as the European Parliament elections of 2029, representing a potential opportunity to foster this process.

5.3 The Reform of the Commission

This paper recognises that to achieve a significant leap in EU decision-making, there is an inherent need to transcend the boundaries set by the PF paradigm.

For this reason, we also put forward a third, distant scenario, which we deem achievable solely by means of transcending the inherent limits of the PF paradigm as sketched out in the previous pages.

This paper envisions the Commission’s reform as the gateway to realise the telos of PF, that is creating a legitimate federal core around flexible and sectorial clusters. This is a great leap forward and requires treaty change. The Commission’s current weaknesses are structural. The 27 commissioners board creates internal coordination costs and political constraints that impede decisive action. Reform proposals may converge on several key themes.

First, a stronger politicisation of the Commission’s presidency (moving beyond the Spitzenkandidat process, already undermined by the European Council) is required. The current system grants MSs governments decisive gatekeeping authority over the Commission’s political identity⁶⁰. A democratising reform would move beyond convention toward a binding pan-European electoral mechanism. A President elected with a direct or reinforced parliamentary mandate would derive legitimacy from European citizens rather than intergovernmental consensus, structurally reducing the Commission’s dependence on MSs favour and enabling it to act as a genuine federal agenda-setter. Additionally, the Commission’s capacity to act as a genuine agenda-setter in areas such as defence, industrial policy, strategic autonomy, and the green and digital transitions requires both an expanded budgetary base and a willingness to use the full range of its treaty powers⁶¹.

Ultimately, the EP’s growing role in the investiture and scrutiny of the Commission has created the conditions for a more “parliamentarised” system, but these conditions have not been fully exploited⁶². A clearer convention that the Commission governs with and for a

⁶⁰ Olivier Costa, *Perspectives for EU Governance: Between Community Method, New Intergovernmentalism and Parliamentarisation*, Study Requested by the AFCO committee (European Parliament, 2022).

⁶¹ Scharpf, ‘THE JOINT-DECISION TRAP’.

⁶² Costa, *Perspectives for EU Governance: Between Community Method, New Intergovernmentalism and Parliamentarisation*.

parliamentary majority would strengthen both the Commission's political mandate and the Parliament's claim to democratic governance.

Second, to mitigate the MSs influence over the Commission's legislative-initiative capacity, this paper proposes the elimination of the Commissioners' current selection system and the introduction of a new procedure. At the present stage, bureaucratic complexity and the persisting influence of national executives despite a potential reduction of the size of the College of Commissioners, would prevent significant legitimisation of the Commission. To bridge this significant gap, provided this scenario functions beyond the boundaries of PF and admits treaty change, this paper proposes that the Commissioners would be elected through national parliamentary plenaries under QVM.

In conclusion, pragmatic federalism has the potential to transform the EU, provided it moves beyond executive-centric, sector-specific integration. At the same time, it should be acknowledged that such an epoch-making shift might pose some potential threats. Without a coherent and shared strategic direction, the Union could drift toward fragmented governance driven by competing national interests and unstable coalitions. To avoid such an outcome, European integration should be guided by a holistic, long-term, and collectively endorsed agenda. Whilst the initial pragmatic application of cluster integration might seem sufficient to empower the Union with a new arsenal of tools and alliances, a more democratic and institutionally accountable approach should be carried forward: the Union is one and indivisible, despite being modular and plural. Reforms in one cluster should not jeopardise the Union's global action. Hence, by reversing the perspective from federalism to pragmatism, we conclude that a comprehensive strategic vision for the future of Europe must guide the formation of clusters, not vice versa. Such a vision can channel all the coalitions towards a common destination, that is a more autonomous, agile and versatile Europe capable of being alone together.

PLENARY SESSIONS PAPERS

PLENARY 1: ENERGY INDEPENDENCE: ACCELERATING ENERGY TRANSITION TO ENHANCE EUROPEAN ENERGY SECURITY



PART 1: Measuring the Energy Transformation

Vision with the support of ERG

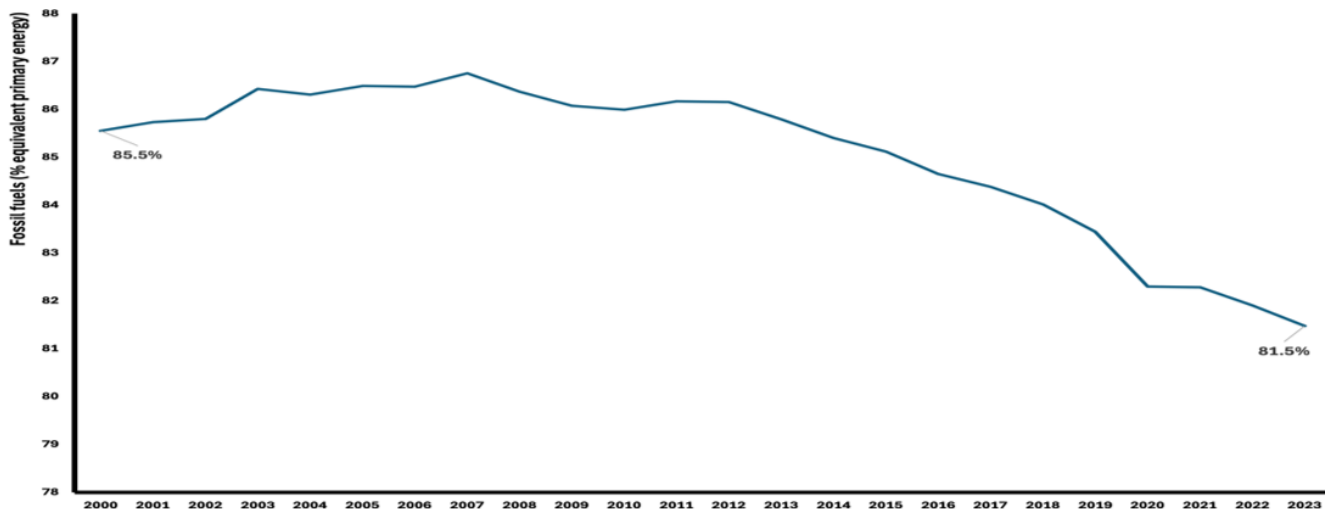
Francesco Grillo, Francesca Stefani, Gabriele Dell'Anno

What is a realistic plan to complete an energy transition that is meant to be one of the main drivers to transform economies? For years we have been “selling” such transition as something we need to decarbonize our economy in a *green narrative*, driven by the fight against climate change. It is true that we need energy transition to make the world habitable to future generations. And yet we need to get the transformation done also because it is about achieving a system to produce and deliver energy which is more accessible, technically stable, less vulnerable to geopolitical crises.

The overall transition has been more in the words of the energy summits than in the results. In 1995 at the time of the first Conference of Parties (COP) in Berlin, the then young President of COP, Angela Merkel, declared that the percentage of energy consumption coming from fossil had to come down drastically. In 1995 that percentage was 87,3%; in 2023, after 28 COPs, the fossil fuels still accounted for 81.5% of world primary energy consumption.

CHART 1.1.1 – SHARE OF WORLD PRIMARY ENERGY CONSUMPTION THAT COMES FROM FOSSIL FUELS

(%) FROM 2000 TO 2023



SOURCE: Vision on University of Oxford data

Recently, however, the global energy transition has started delivering tangible results. The rapid deployment of renewable energy, electrification technologies and other low carbon solutions is reducing reliance on fossil fuels and slowing the growth of emissions. Since 2019, the expansion of solar, wind, nuclear power, electric vehicles and heat pumps have avoided fossil fuel consumption equivalent to around 7% of global demand in 2025, roughly matching the total energy consumption of Latin America.

However, the overall picture remains mixed. Global energy related CO₂ emissions continued to increase in 2025, rising by around 0.4%. While this represents the slowest growth rate in recent years, it confirms that emissions are still moving in the wrong direction despite unprecedented investment in clean energy technologies.

Certainly, the global picture discounts different regional patterns.

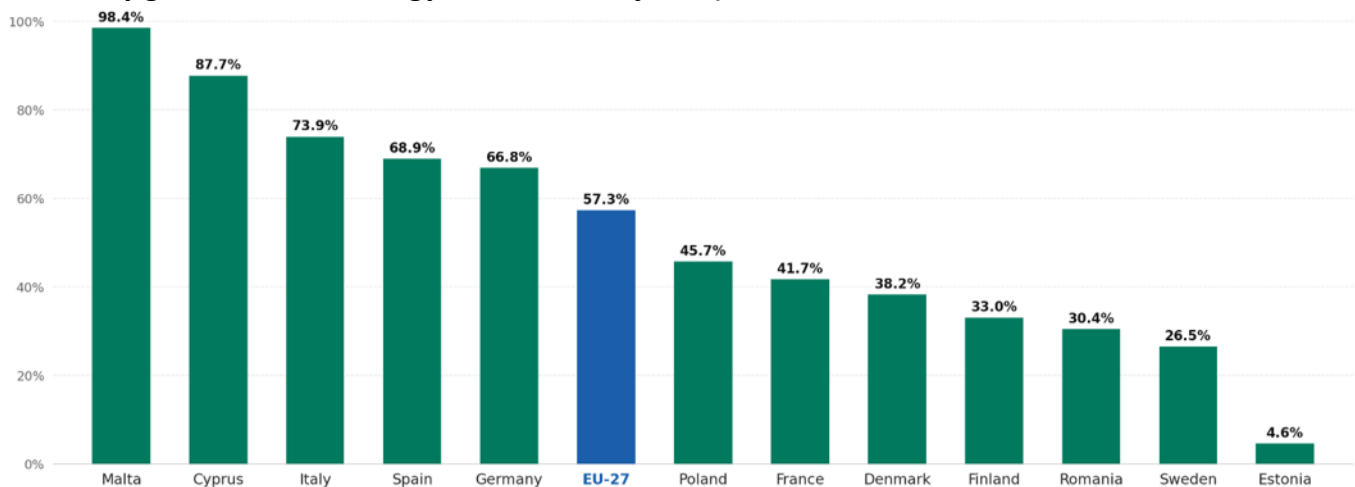
The EU peaked its emissions in 1981 and yet even the EU has decreased emissions of just 10% since the Paris agreement and should, in theory, triple the speed of its reduction rate to respect the agreement by 2030 (leaving alone a decline of 55% as for the EU “green deal”).

Yet this narrative must be complemented by a more immediate urgency: Europe’s energy vulnerability. As the graph below shows, **Europe imports nearly 58% of the energy it consumes** on average, with even higher levels in Italy and Germany, at 73.9% and 66.8% respectively. The Draghi report identifies high energy prices as a key obstacle to EU competitiveness: although prices have fallen from their peaks, European firms still face electricity prices two to three times higher than those in the United States.

This dependency has translated into higher bills for firms and households, inflationary pressures, and greater vulnerability to external actors. Moreover, it has exposed Europe to repeated geopolitical shocks, from Russia’s weaponization of energy supplies to instability in the Middle East. We are permanently on the verge of energy crises caused by geopolitical issues, and it is telling that the reaction to those crises is about minimizing the consequences (by trying to reduce costs of fossil energy that we do not control). Not about developing the plan to solve the structural problem we continue to have. We must have a clear plan to complete the energy transition in the most effective way because this is vital to our short- and

medium-term interests.

CHART 1.1.2 – Energy imports dependency rate in Europe in 2024 (Total energy - net imports divided by gross available energy, based on terajoules)



SOURCE: Vision on Eurostat data

The figures confirm that energy dependency remains a structural constraint rather than a residual issue. Despite the growth of renewables and improvements in efficiency, Europe remains significantly exposed to external energy sources, with direct implications for strategic resilience, price volatility and geopolitical vulnerability. Europe's energy transition is about climate but it's also, now more than ever, a strategic necessity.

At the same time, the global economy expanded by more than 3%, significantly faster than emissions. This confirms **a continued decoupling** between economic growth and carbon emissions, demonstrating that economic development no longer requires a proportional increase in emissions. While this trend is encouraging, the pace of emissions reduction remains insufficient to align with climate objectives.

The experience of China highlights both the opportunities and the challenges of the transition. In 2025, the country recorded a slight decline in emissions, driven by the rapid growth of low carbon electricity generation and more moderate growth in power demand. This demonstrates that a steady clean energy deployment can reverse the emissions trends even in large and rapidly evolving energy systems, pairing on a larger scale what already happened in Europe. These developments point to an important conclusion. **The energy transition is working, but not yet at the required scale.** Clean technologies are increasingly displacing fossil fuels and weakening the link between economic growth and emissions. Yet global fossil fuel consumption remains at historically high levels, and total emissions continue to rise.

The achievement of the net-zero emissions by 2050 requires an immense transformation (it was probably a mistake to call it “transition”). McKinsey recently estimated that it would imply an increase in annual average spending on physical assets of \$3.5 trillion⁶³. This is an increase in the total current global investments in fixed assets of 61% and it would be necessary to increase tax revenue by a quarter to find this money. In 2025, the EU imported around EUR 340 billion worth of fossil fuels and in the first 52 days since the beginning of

⁶³ McKinsey, The net-zero transition: What it would cost, what it could bring.

<https://www.mckinsey.com/capabilities/sustainability/our-insights/the-net-zero-transition-what-it-would-cost-what-it-could-bring>

the conflict in the Middle East in March 2026 and the closure of the Strait of Hormuz, Europe has spent an additional EUR 24 billion on fossil fuels imports⁶⁴. However, McKinsey's estimation is not clear in terms of how the figure was calculated; they probably did not consider that the prices themselves of energy transition technologies are declining rapidly; and it may be a mistake to shoot such an unfeasible feat. In general, the hype of some calculations can be part of the problem, and the energy transition is still surrounded by some ambiguity.

Accelerating the transition will therefore require not only continued investment in clean supply, but also stronger growth in electrified demand and a broader transformation of energy consumption patterns.

More importantly, however, we need tools to better understand what should be called energy transformation (and not just transition), to measure how fastly are we progressing and to identify the bottlenecks.

MEASURING ENERGY TRANSFORMATION

Vision proposes to break the overall question of measuring the energy transformation in **four indicators** that break down the answer into more operational indicators.

Overall, we would, in fact, say that we would expect from the transformation that we cut energy wastes; that we increase electrification as a key enabler of low carbon sources, but also as safer/ cheaper way to transport energy; that the share of renewables/ low carbon sources increase as a percentage of electricity production; and that – last but not least – the production becomes more distributed.

The first pillar is, thus, **energy efficiency**, measuring the capacity of an economy to generate wealth with lower energy consumption. The second is **electrification**, namely the growing role of electricity within total energy use, which is essential for decarbonizing transport, industry and households. The third pillar is the **clean share of electricity generation**, capturing the extent to which electricity is produced from renewable and nuclear sources rather than fossil fuels. Finally, the fourth pillar concerns the **diffusion of distributed energy production**, measuring the role played by small and domestic systems in generating renewable electricity. Together, these four dimensions provide a broader picture of the energy transformation. These pillars will be analyzed for 10 countries (7 European countries and 3 global leaders, namely the US, China and India), comparing developments between 2000 and 2024.

However, these indicators should not be interpreted according to “the higher, the better” logic. Every country has a different economic structure, geography, industrial specialization, demographic density and resource endowment. Consequently, **each pillar has an optimal level, concerning, both in terms of security and economic sustainability, that may vary significantly across territories and regions**. For example, a highly industrialized

⁶⁴ AccelerateEU – COM(2026) 370 - https://energy.ec.europa.eu/document/download/7fac9eea-5717-4182-a368-bd68c427ff4c_en?filename=Communication.pdf

economy may require different electrification patterns compared to a service-oriented economy. The objective, therefore, is not uniformity but understanding whether each country is moving coherently toward a more low-carbon and technologically sustainable energy system.

The four pillars proposed should therefore be considered as outcome indicators that, in future research, will need to be decomposed into more granular indicators to capture all the dimensions of energy transformation.

1st PILLAR OF THE ENERGY TRANSITION

TABLE 1.1.1 – Energy efficiency: GDP/ energy consumption for 10 countries, 2000 vs 2024

	Italy	France	Spain	Germany	Poland	Denmark	Netherlands	China	India	USA
2024	1.4031	1.2540	1.0651	1.4677	0.8154	2.1631	1.3060	0.3825	0.3449	1.0837
Δ 2000	+156.2%	+187.5%	+171.6%	+197.1%	+379.7%	+211.9%	+214.8%	+270.0%	+174.3%	+180.7%

SOURCE: Vision on World Bank Group (GDP) and Our World in Data (Energy Consumption)

The analysis of energy efficiency trends between 2000 and 2024 reveals a substantial structural transformation across all examined economies. Energy efficiency, measured as the ratio of Gross Domestic Product (GDP) to primary energy consumption (US\$/kWh), increased in every country included in the sample, although with significant differences in magnitude and trajectory.

Among the analyzed countries, Denmark emerges as the most energy-efficient economy in 2024, reaching a value of 2.16 US\$/kWh. This performance indicates the ability of the Danish economy to generate high economic output with relatively limited energy input. The result is consistent with Denmark’s long-term transition toward a service-oriented and technologically advanced economy, combined with extensive investments in renewable energy, electrification and energy optimization policies.

All European countries experienced a marked improvement in energy efficiency over the observed period. Germany (+197.1%), Netherlands (+214.8%), and Poland (+379.7%) recorded the largest relative increases within Europe. Poland represents a particularly relevant case: despite starting from the lowest efficiency level among European countries in 2000, it achieved the highest relative growth. This suggests a rapid economic modernization process in which GDP growth significantly outpaced the increase in energy consumption. The findings indicate the significant **decoupling** between economic growth and energy consumption. Both United States and France reduced or stabilized their total energy consumption while simultaneously increasing GDP. The United States presents the clearest example of this trend: primary energy consumption remained almost unchanged between 2000 and 2024, whereas GDP nearly tripled. This indicates substantial improvements in technological efficiency, industrial productivity and the growing weight of less energy-intensive economic sectors.

In contrast, China and India, although demonstrating strong improvements in efficiency (+270% and +174.3%, respectively), remain significantly below the efficiency levels observed in advanced European economies. Both countries experienced dramatic increases in absolute energy consumption, reflecting ongoing industrialization and rapid economic expansion. China quadrupled its energy consumption during the period, while India approximately tripled it. Their efficiency values remain below 0.40 US\$/kWh, highlighting the persistence of energy-intensive production structures typical of emerging economies. Overall, the data indicates that economic growth does not necessarily require proportional increases in energy consumption, demonstrating significant improvements in energy waste reduction.

2nd PILLAR OF THE ENERGY TRANSITION

TABLE 1.1.2 – Electrification: Share of electricity in total final energy consumption for 10 countries, 2000 vs 2024

	Italy	France	Spain	Germany	Poland	Denmark	Netherlands	China	India	USA
2024	22.0%	25.6%	23.1%	20.0%	15.8%	22.4%	18.6%	27.4%	15.6%	22.8%
Δ 2000	+20.2%	+24.9%	+22.2%	+9.9%	+8.2%	+14.3%	+33.8%	+95.7%	+56.0%	+16.3%

SOURCE: Vision on Enerdata

The table maps electrification rates, measured as the share of electricity in total final energy consumption, across ten countries in 2024 and compares them with their level in 2000. The headline finding is simple: electrification has advanced almost everywhere, but the pace of progress varies significantly across countries.

Electrification is one of the most effective pathways to reduce emissions, strengthen energy security and improve overall energy efficiency. While it is often presented as a natural consequence of economic development, evidence suggests that the level of electrification achieved by different countries is primarily the result of policy choices rather than wealth, climate conditions or geography.

This is illustrated by the wide variation in 2024 electrification rates. China records the highest share among the countries shown, with electricity accounting for 27.4% of total final energy consumption, followed by the USA and some European countries, while the Netherlands, Poland and India remain lower, at 18.6%, 15.8% and 15.6% respectively. The change since 2000 is equally revealing. China shows the strongest increase, with its electrification rate rising by 95.7%, followed by India at 56.0% and the Netherlands at 33.8%. France, Spain and Italy also recorded substantial gains, at 24.9%, 22.2% and 20.2% respectively. By contrast, progress has been more limited in Poland, Germany and Denmark, where electrification increased by 8.2%, 9.9% and 14.3%.

Higher electrification is closely linked to energy resilience and strategic autonomy. By replacing imported fossil fuels with domestically generated electricity, electrification reduces exposure to external shocks, improves industrial competitiveness and enhances long-term energy security. Electrification is not an end in itself. Its strategic value lies in the superior efficiency of electric technologies. Heat pumps, electric motors and electric industrial processes typically require substantially less primary energy than fossil-fuel alternatives, reducing both costs and emissions.

Not all sectors can be electrified at the same pace: some of them may continue to require alternative solutions. Nevertheless, a large share of current energy consumption is already technically and economically electrifiable through commercially available technologies. Accelerating their deployment should therefore be considered a central pillar of any long-term energy transition strategy.

3rd PILLAR OF ENERGY TRANSFORMATION

TABLE 1.1.3 – Clean share of electricity generation: Electricity from Renewables and Nuclear/ Electricity for 10 countries, 2000 vs 2024

	Italy	France	Spain	Germany	Poland	Denmark	Netherlands	China	India	USA
2024	50.2%	94.9%	76.7%	58.6%	31.1%	89.2%	53.7%	38.2%	22.5%	41.9%
Δ 2000	+31.3%	+4.2%	+33.0%	+22.6%	+29.5%	+73.7%	+45.8%	+20.3%	+5.7%	+12.8%

SOURCE: Vision on Our World in Data

The data clearly show that the share of electricity generation coming from clean resources rose in all ten countries in the sample. Denmark stands out as the transformation's leader, drastically increasing its renewables share from 15.5% to 89.2% (Denmark has no nuclear capacity, so this is also its total clean share). Germany and the Netherlands also rose dramatically in their clean share, even though Germany completely abandoned its nuclear fleet (from 29.8% to 0%). Spain and Italy also made strong gains, driven by wind and solar.

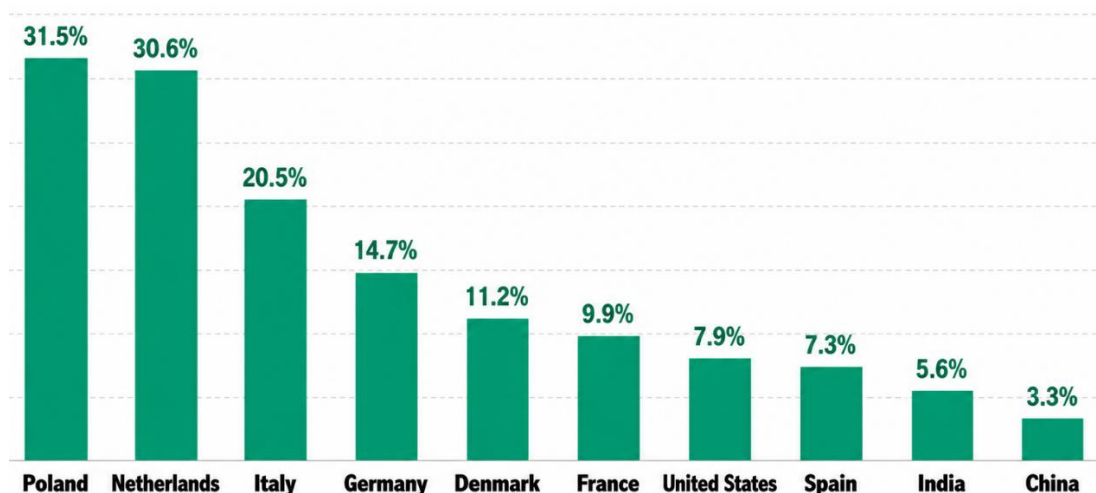
Several countries that relied on nuclear in 2000 have reduced or eliminated it. Germany is the starkest case. France remains the most nuclear-dependent country in the sample (67.7% in 2024, down from 78.0% in 2000) but has meaningfully grown its renewables share too (from 12.7% to 27.2%). The US, by contrast, relies on nuclear for a fairly steady share of its mix — around 17.8% in 2024, down only slightly from 19.8% in 2000.

Poland is a particularly interesting case. Starting from almost nothing (1.6% clean share in 2000), it reached 31.1% in 2024. While having made significant progress, it remains, however, heavily coal-reliant and lags behind the other European countries in the sample. The US, the world's second-largest generator, also shows comparatively modest improvement in its clean share, moving from 29.1% to 41.9%.

For most European countries, the transition is increasingly within reach of the 80–100% clean electricity threshold needed for full decarbonization of the power sector. For large emerging economies, the challenge is different: clean capacity is being added rapidly, but demand is growing even faster.

4th PILLAR OF THE ENERGY TRANSITION

CHART 1.1.3 – Ratio: Electricity being produced by small/domestic systems (< 30 kWp) (%) / Electricity produced by renewables for 10 countries, 2000 vs 2024



SOURCE: Small PV (<30 kWp) shares are estimated from IEA, EIA, Bundesnetzagentur, SolarPower Europe, Mercom and Global Energy Monitor sources (2024–2025). Year-2000 small PV is effectively ~0% for all countries - utility-scale hydro, wind, and biomass dominated renewables and residential solar was negligible. Renewable share of electricity from Our World in Data. The "pillar 4 ratio" = small PV share of total electricity ÷ renewable share of total electricity × 100.

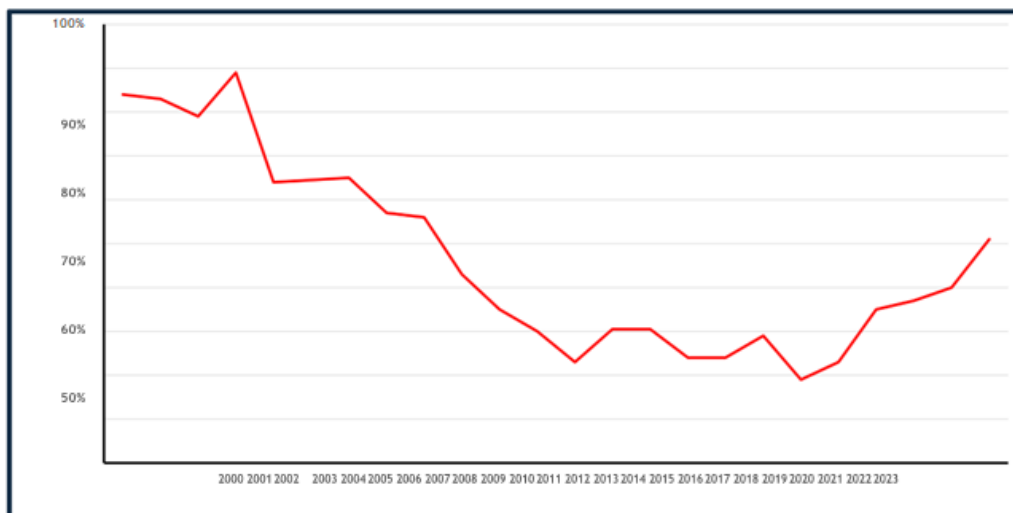
Finally, we consider how concretely is the “transformation” really leading to a paradigm where consumers produce part of the energy they need. On this we are so behind that we even miss specific definitions and measurements. The indicator measures how much of a country’s renewable electricity comes from small-scale distributed systems rather than centralized utility-scale plants

In 2000, solar PV at any scale was negligible across all ten countries. The entire renewable base was hydro, wind, and biomass, inherently centralized or rural. Therefore, the distributed energy paradigm was purely theoretical.

By 2024, the picture is mixed, and the gap between European leaders and the rest is striking. The Netherlands and Poland top the pillar-4 ratio, with roughly 30% of their renewable electricity now coming from small distributed systems. This reflects a genuine structural pattern: both countries have very high residential solar penetration relative to their total renewable base (which still contains modest wind and biomass). Distributed solar already represents around 68% of all operating solar in Germany and 86% in Italy, yet Italy and Germany sit in the middle range on the ratio because their overall renewable share is also very high (the denominator is larger).

Countries with very high renewable shares (Denmark at 89%, Germany at 58%, Spain at 57%) show modest or medium pillar-4 ratios, because most of their renewable electricity comes from large-scale wind and solar farms. Distributed small solar is growing but is not keeping pace with utility-scale deployment. The graph below considers one of the countries that has been keener on a distributed model of energy production. Germany.

CHART 1.1.4 – Evolution of the share of solar energy being produced by small/domestic systems in Germany (< 30 kWp) (%)



SOURCE: Vision on Fraunhofer ISE data

The larger economies, China, India and the United States, score lowest on the ratio, and this is by design: China's distributed solar fell to 38% of total solar additions in 2024, down from 58% in 2022, as utility-scale deployment surged. In the US, distributed solar contributes just under 2% of total electricity generation, with utility-scale solar growing far faster. India is accelerating residential adoption, but rooftop solar capacity at end of 2024 was 13.7 GW against a total solar base of over 80 GW, still a minor fraction.

In conclusion, the distributed energy paradigm is not winning. Across all geographies and regardless of how much renewable energy is being added, the dominant model remains centralized. The few countries where small distributed solar is most significant (Netherlands, Germany, Italy) got there through generous feed-in tariffs and prosumer policies that are now being phased out, and residential solar share across the EU fell from 28% to 20% of new installations in 2024. The trend, if anything, is reversing. The question is to try to better understand whether the barrier is about technologies, economies of scale or the interests of the incumbents so to provide some realistic recommendations.

PART 2: Getting the Energy Transformation Done

ERG with the support of Vision



Stimulating Electrification Across the Economy

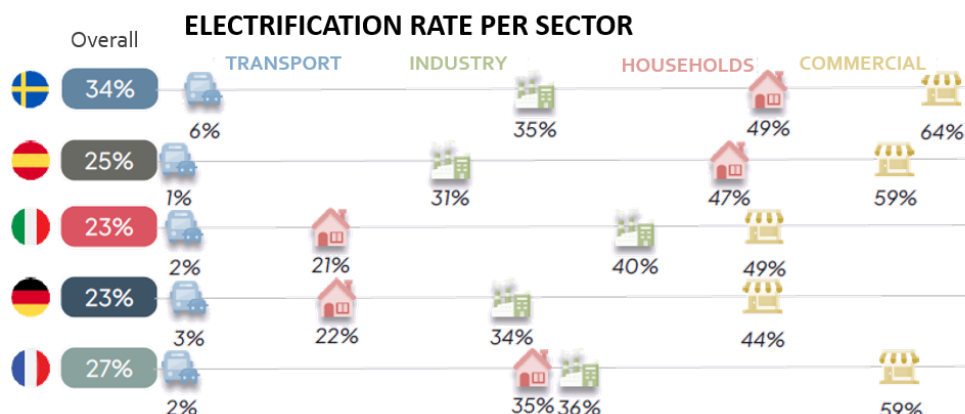
An effective European energy strategy should place electrification at the core of industrial, energy, and climate policy. The objective is not only to reduce greenhouse gas emissions, but also to strengthen energy sovereignty, reduce exposure to volatile fossil fuel imports, and enhance the competitiveness of European industry. Electrification, by enabling a shift from imported fossil fuels to domestically produced clean electricity, therefore represents a strategic lever to reduce dependency and stabilise long-term energy costs.

To fulfil this role, electrification must accelerate across all major end-use sectors, including electric mobility, heating and cooling, and industrial heat. Today, transport and buildings remain largely fossil-based, while industrial electrification progresses unevenly across Member States, often constrained by regulatory uncertainty and distorted price signals. This is particularly relevant given that fossil fuels remain the largest source of EU greenhouse gas emissions, concentrated precisely in these sectors.

Differences in electrification rates can be observed not only across countries, but also within individual sectors, as presented in

Chart 1. Residential heating, industrial processes and transport display markedly different levels of electrification across European economies, despite often relying on similar technologies and facing comparable technical constraints. This suggests that electrification is not primarily a question of feasibility. Rather, it reflects differences in policy frameworks, market incentives, infrastructure development and long-term strategic priorities.

Chart 1.2.1: Electrification rate per sector in relevant EU countries. Source: Elemens on Eurostat data (2025)



By more closely aligning energy and industrial policy, Europe can transform clean electricity from a pure decarbonisation tool into a structural competitive advantage, while addressing the energy trilemma of sustainability, security and affordability. Such alignment is also essential to meet the Clean Industrial Deal objective of reaching at least 32% economy-wide electrification by 2030, a level that implies a substantial acceleration compared to historical trends.

Achieving this objective will require a more proactive approach to electrification than has been observed to date. Recognising this challenge, the European Commission has announced the development of an Electrification Action Plan aimed at accelerating the uptake of electricity across industry, transport, buildings and other end use sectors.

Growing electricity demand expected from data centres, artificial intelligence applications and industrial electrification should not be viewed solely as a challenge: it can become a catalyst for renewable deployment, grid investment and industrial competitiveness. Demand growth is increasingly a prerequisite for maximising the value of clean electricity investments and reducing dependence on imported fossil fuels.

Policy Instruments to Make Electricity Competitive

Achieving this objective requires a coherent policy framework that consistently supports the transition from fossil fuels to electricity.

First, energy taxation and levies should be rebalanced to remove distortions that continue to penalise electricity relative to natural gas and other fossil fuels. In several Member States, taxes and system charges on electricity remain multiple times higher than those applied to gas, offsetting much of the efficiency advantage of electric technologies and discouraging fuel switching.

Second, the EU Emissions Trading System (ETS) should remain the cornerstone of the transition from fossil fuels to electricity, providing a stable and credible carbon price capable of driving decarbonisation while preserving industrial competitiveness. A predictable ETS price signal is essential to unlock clean-tech investment and avoid locking Europe into long-term fossil dependency. Frequent regulatory interventions or fragmented national approaches may weaken the long-term investment signal provided by the ETS.

Third, ETS revenues should, as required by EU regulation⁶⁵, be strategically reinvested in electrification, industrial transformation, and clean energy infrastructure, rather than dispersed through short-term compensatory measures. Targeted use of ETS revenues can significantly improve the cost-effectiveness and social acceptability of the transition. From 2013 to the end of 2025, EU ETS auctions have raised over €258 billion in revenue.

Too often ETS revenues have been used to support general public budgets or short-term compensatory measures (**Error! Reference source not found.**, **Error! Reference source not found.**). Redirecting a larger share of these resources towards electrification, grids, storage and industrial transformation would accelerate the energy transition while increasing its economic effectiveness and public acceptance.

Chart 1.2.2: Member States' use of 2024 ETS revenues in the different categories

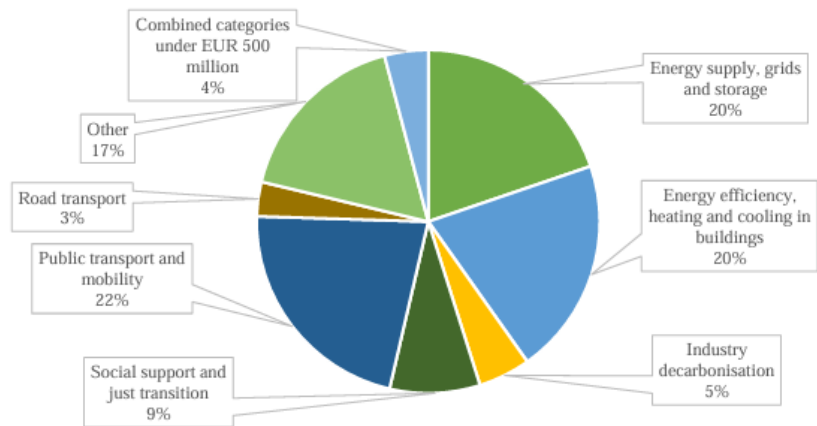
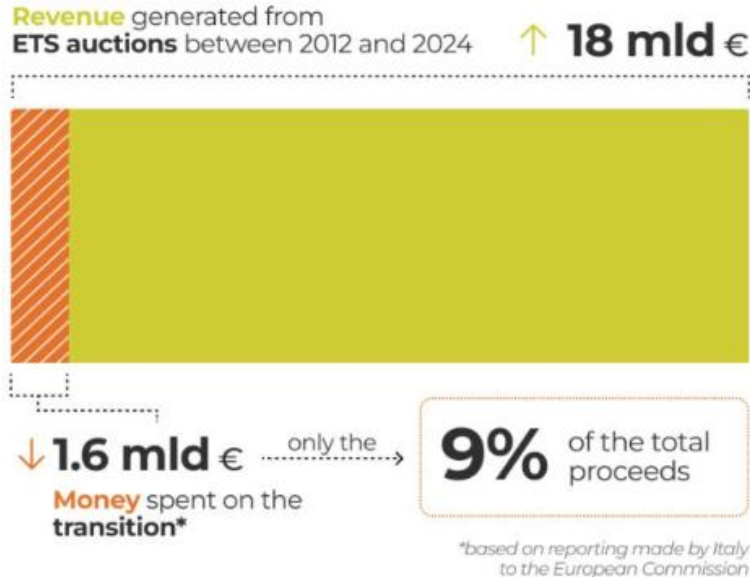


Chart 1.2.3: Italy's use of ETS revenues in the last 12 years



Additionally, greater pass-through to final consumers of the lower wholesale electricity prices increasingly enabled by renewables, through tariff structures and network charges better aligned with wholesale market dynamics, would further accelerate electrification. Together,

⁶⁵ Up to 4 June 2023, Member States were encouraged to use at least 50% of the revenue collected to support decarbonisation and energy transformation investments. For the revenue collected from 5 June 2023 onwards, the obligation to use 100% (or equivalent financial value) to support decarbonisation and energy transformation in ETS sectors applies.

these instruments can create the economic conditions necessary to stimulate demand, mobilise investment, and accelerate the structural transition toward a more resilient and competitive European economy.

Bankable Long-Term Contracts for Renewables

Long-term contracts are essential to reducing market volatility and providing the certainty required to finance large-scale renewable deployment in a system increasingly exposed to price variability and negative-price hours. The growing frequency of negative-price hours should be interpreted not only as a flexibility challenge, but also as evidence of insufficient electrified demand capable of absorbing abundant renewable generation.

Renewables are cost competitive on a levelized cost of electricity basis as presented in **Error! Reference source not found.**, outperforming conventional generation technologies in many European markets. However, their cost structure remains heavily capital intensive, with most costs incurred upfront while revenues are spread over long operational lifetimes and exposed to market volatility. As a result, the main barrier is not economic competitiveness, but bankability. This makes long term revenue stabilization mechanisms essential to reduce risk and unlock financing at scale.

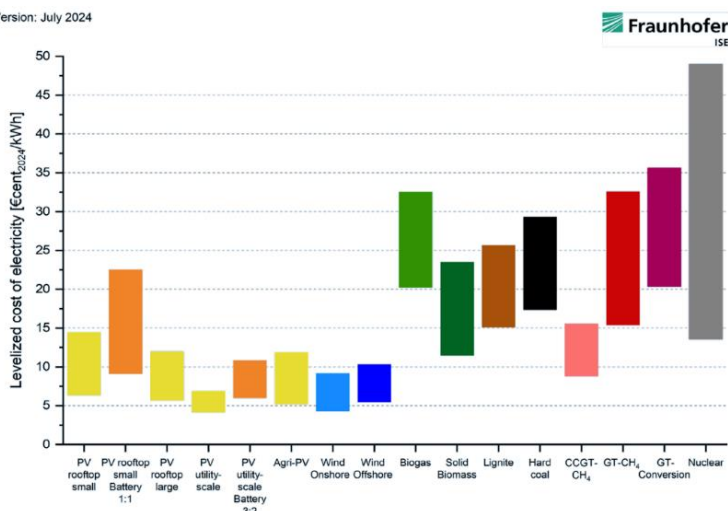
Government-backed Contracts for Difference (CfDs) should be planned on a multiannual basis through transparent auction calendars that enable developers and the supply chain to plan investments effectively. Contract durations should be aligned with the economic life of assets, typically 20 years or longer, in order to reduce the cost of capital and ultimately deliver lower prices to consumers.

Providing long term revenue certainty does not come at the expense of innovation or market efficiency. Competitive auctions continue to reward technological improvements, cost reductions and more efficient project design, while developers remain exposed to performance risks throughout the lifetime of their assets. Stable revenue frameworks therefore support innovation by enabling the deployment of increasingly competitive technologies rather than by shielding them from competition.

Power Purchase Agreements (PPAs) represent a complementary market-based solution capable of stimulating renewable investment without imposing additional burdens on public budgets. However, smaller and non-investment-grade companies often face significant barriers to market access, compounded by limited hedging capabilities. This constrains the expansion of corporate PPA demand despite strong industrial interest.

Public guarantees of last resort, state-backed hedging mechanisms, and initiatives aimed at strengthening corporate risk-management capabilities could unlock a broader and more diversified PPA market. At the same time, additionality requirements should be designed in a pragmatic and proportionate manner, ensuring that they preserve environmental integrity without creating unnecessary barriers to corporate participation. Excessively restrictive eligibility criteria or rigid additionality rules risk limiting demand, reducing market liquidity and slowing renewable deployment by preventing willing consumers from entering the market.

Chart 1.2.4: LCOE of renewable energy technologies and conventional power plants in Germany in 2024

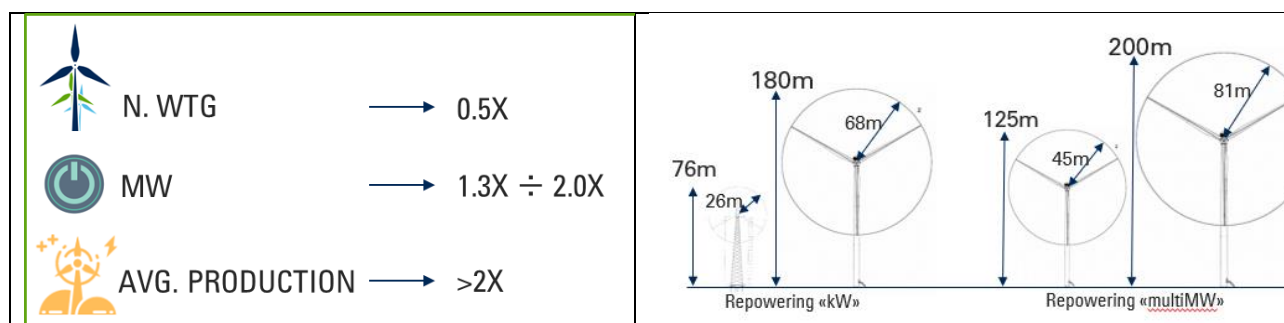


Repowering: More Output from Existing Assets

Wind repowering is one of the fastest, most cost effective and least disruptive ways to increase renewable electricity generation. It consists of replacing older wind turbines, many of which were installed 20-30 years ago, with modern machines that are taller, significantly more efficient and capable of producing substantially more electricity, as exemplified in **Error! Reference source not found..** As a result, the same wind farm can generate considerably more power, often doubling its annual output, while using the same site and, in many cases, with reduced grid upgrades. Repowering therefore maximizes the value of locations that have already been assessed, permitted and integrated into the electricity system, limiting additional land use, reducing environmental impacts and accelerating deployment compared with the development of entirely new projects.

For these reasons, repowering should be treated as a strategic priority, supported by streamlined permitting procedures and regulatory frameworks that recognize its lower environmental and administrative impact while enabling Europe to rapidly increase renewable generation from its existing wind fleet.

Chart 1.2.5: Key aspects of wind repowering



Repowering projects also benefit from greater local acceptance, as operators have already established relationships with local communities. They build upon infrastructure already integrated into the territory and maximise the use of high-quality resource locations. Nevertheless, current regulatory frameworks do not adequately recognise the additional capital expenditure and opportunity costs associated with repowering, while the implementation of EU rules remains uneven across Member States.

Dedicated auction mechanisms or targeted incentives for repowering, clear targets within National Energy and Climate Plans (NECPs), and streamlined permitting and grid-connection procedures are all necessary to unlock this strategic opportunity.

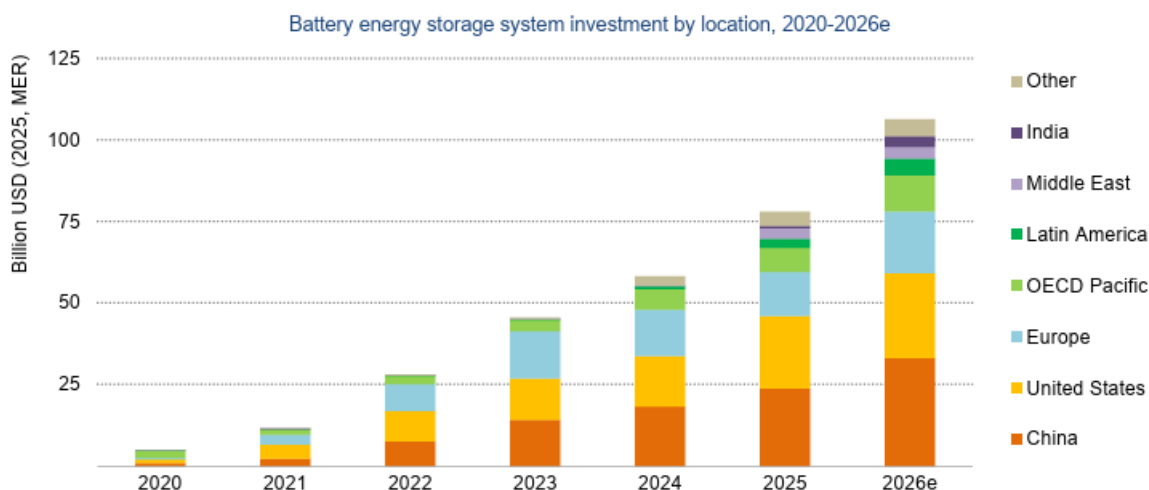
Flexibility, Storage, and Hybridisation

As renewable penetration increases, flexibility becomes indispensable to maintaining system efficiency and managing the growing frequency of negative-price periods, especially in markets characterised by significant inflexible baseload generation. Recent market data show a rapid increase in negative-price hours as RES shares exceed 50% of generation.

Storage, hybridisation, and digitalisation are critical tools for integrating higher shares of variable renewable generation while optimising the use of network infrastructure. Multiple routes to market are needed, including dedicated support schemes, well-designed capacity markets with coherent derating factors, and regulatory frameworks that facilitate the co-location of storage with renewable assets.

Battery storage is becoming a central pillar of the energy transition, driven by rapidly falling costs and accelerating deployment across power systems. Over the past decade, lithium-ion battery prices have declined significantly, enabling a shift from niche applications to large scale integration in grid balancing, electric mobility and renewable firming. Installed capacity is growing quickly in Europe, the United States and China, reflecting both policy support and improved business case economics, particularly in systems with high shares of solar and wind generation.

Chart 1.2.6: BESS investments and locations, Source: IEA World Energy Investments 2026



IEA. CC BY 4.0.

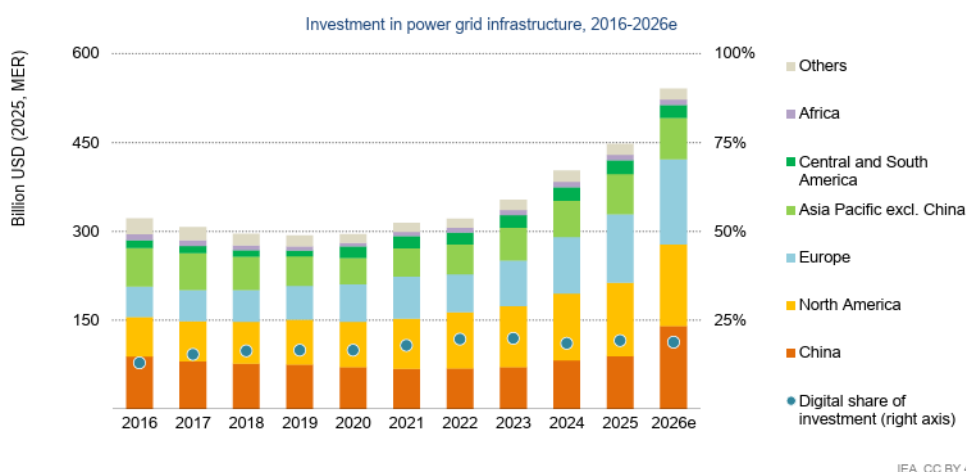
Despite this progress, the sector remains highly concentrated. Battery storage today is essentially synonymous with lithium-based technologies, which creates a strong dependency on a limited set of raw materials, including lithium, nickel and cobalt. At the same time, global supply chains for both processing and manufacturing are heavily dominated by China, which controls a large share of refining capacity and battery production. This concentration introduces strategic vulnerabilities, making supply diversification and domestic industrial capacity increasingly important alongside cost and deployment growth.

Existing renewable plants should be allowed to integrate storage and other flexibility solutions without losing access to existing support mechanisms, as hybrid plants simply enable output to be shifted to periods when it has greater value for the system. Baseload-oriented CfDs and revised capacity-market rules can further encourage hybridisation and strengthen the contribution of renewables to system adequacy. Consumers should be able to capture the value they provide to the power system through flexible consumption. This applies both to industrial users willing to participate in demand response schemes and to households adapting consumption patterns to market conditions. Retail tariffs should increasingly reflect actual system costs. Traditional time of use structures, such as those still used in Italy where midday electricity is often priced as a peak period, are becoming less representative of a system increasingly shaped by abundant and low-cost solar generation.

Grids as the Backbone of the Transition

Electricity networks are the essential infrastructure connecting renewable generation, new demand, and flexibility resources. Insufficient grid capacity increases congestion, curtailment, and overall system costs, ultimately undermining both competitiveness and energy security. Stronger and more modern networks reduce bottlenecks, enable more efficient dispatch, and support the broader electrification of the economy. Grid constraints are already emerging as a key limiting factor in several high-RES regions. After a prolonged period of stagnation, global investment in electricity grids has picked up significantly in recent years. Total spending increased by around USD 45 billion in 2025, reaching close to USD 450 billion, marking the largest rise across the power sector. It is expected to grow by a further 17% in 2026. However, part of this increase is driven by higher costs for grid equipment, including transformers, cables and overhead lines, meaning that the rise in expenditure does not fully translate into a proportional expansion of physical infrastructure.

Chart 1.2.7: Power grid infrastructure investments and locations, Source: IEA World Energy Investments 2026



However, grid expansion and modernization are not progressing at the pace required by renewable deployment and electrification ambitions. To close this gap, Europe must accelerate permitting procedures, strengthen investment incentives, and increase accountability for transmission and distribution system operators to ensure the timely delivery of strategic infrastructure.

The challenge is no longer whether Europe should invest in grids, but whether grid development can keep pace with renewable deployment, electrification and industrial demand growth. Without a substantial acceleration of network expansion and modernization, grids risk becoming the principal bottleneck of the energy transition.

Overriding Public Interest as an enabler of decarbonisation

Delivering a demand-led energy transition requires not only appropriate market signals but also regulatory frameworks capable of removing structural barriers to implementation. In this context, the recognition of energy-transition infrastructure as serving an Overriding Public Interest (OPI) is a critical enabler.

OPI, as increasingly embedded in EU energy and climate legislation (RED III), reflects the strategic relevance of decarbonisation, security of supply, and affordability. When applied consistently, it enables faster permitting, reduces litigation risk, and improves coherence between policy objectives and administrative decision-making.

From the perspective of demand activation, OPI is essential not only for renewable generation but also for grids, repowering, storage, and flexibility assets that enable electrification across transport, buildings, and industry. Without prioritised approval of these enabling infrastructures, electricity demand growth risks remaining structurally constrained, regardless of policy ambition.

Conclusions:

A European Roadmap for Demand-Led Decarbonisation

Europe possesses a large share of the technologies, capital, and industrial capabilities required to lead the global clean-energy transition. The key challenge is to establish a coherent, stable, and predictable policy framework capable of stimulating electricity demand while enabling infrastructure and investment to scale accordingly.

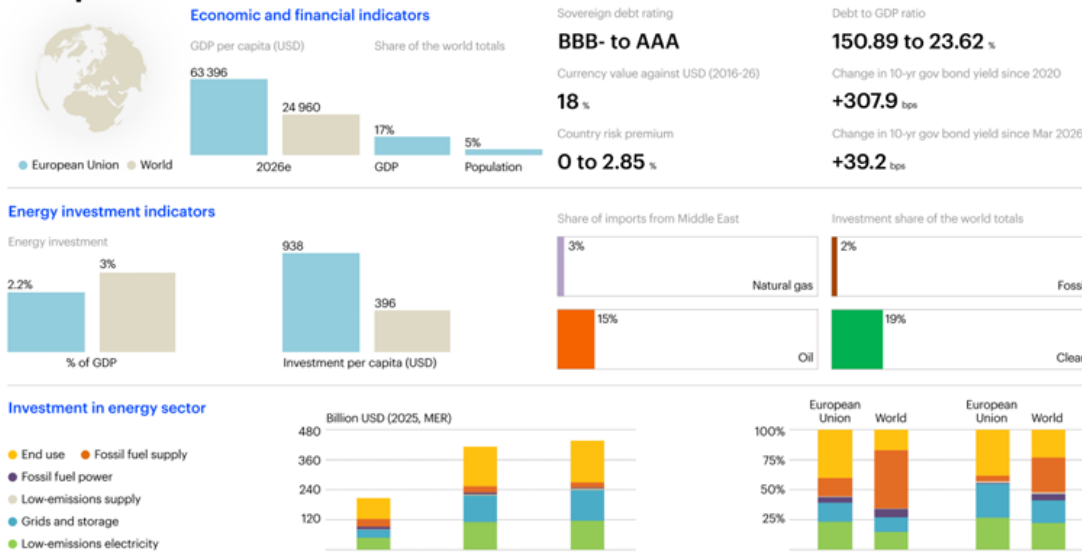
Europe has made decisive progress on clean electricity supply. Renewable deployment has accelerated, costs have declined, and low-carbon generation now represents a structural pillar of the European power system. Yet this supply-side success has not translated into equivalent progress on the demand side. Electricity demand remains structurally weak, electrification advances slowly across key end-use sectors, and the benefits of renewables are only partially reflected in final energy consumption and competitiveness outcomes.

At the same time, new sources of electricity demand are emerging rapidly, including data centres, artificial intelligence applications and industrial electrification. If properly managed, these trends can become a powerful catalyst for renewable deployment, grid investment and European industrial competitiveness rather than a constraint on the energy system.

Europe is uniquely positioned to succeed in this next phase. Despite accounting for only a modest share of the global population, it continues to represent one of the world's largest destinations for investment in clean energy technologies and infrastructure. Preserving this leadership will depend not only on maintaining investment in renewable generation, but also on creating the market conditions that allow clean electricity to become the preferred energy carrier across the economy.

Chart 1.2.8: The situation in the European Union

European Union



Across Europe, the message is consistent: supply-side ambition must be matched by demand activation and system integration. Electrification, long-term contracting, flexibility, grids, and permitting reform are not standalone measures, but mutually reinforcing elements of a single transition architecture. Fragmented or sequential approaches will not deliver the scale or speed required.

Electrification should therefore be recognised not simply as a decarbonisation tool, but as the central driver of Europe's future competitiveness. Increasing electricity consumption in industry, transport and buildings improves energy efficiency, reduces exposure to imported fossil fuels and creates stronger investment signals for renewable generation, storage and electricity networks. In turn, lower cost and more abundant clean electricity strengthens the competitiveness of European industry and supports the development of emerging sectors such as artificial intelligence and advanced manufacturing.

Electrification, long-term contracting, repowering, flexibility, and grid development should be understood as mutually reinforcing pillars of a demand-led decarbonisation strategy. By acting decisively across these areas, Europe can build an energy system that is cleaner, more secure, and more competitive, while simultaneously reducing dependence on imported fossil fuels and strengthening its industrial base.

The challenge is no longer whether Europe can produce clean electricity, but whether it can create the conditions to consume it competitively at scale. Europe does not suffer from a lack of climate ambition. It suffers from an implementation gap. The technologies are available, costs continue to decline, and investment capital is increasingly mobilised. The priority now is to accelerate deployment through electrification, grids, storage, repowering and long-term investment frameworks.

Key policy priorities for a demand-led transition

A credible and effective demand-led decarbonisation strategy should therefore focus on the following priorities:

- **Placing electrification at the centre of EU energy and industrial policy**, with clear objectives and binding national trajectories aligned with the Clean Industrial Deal.

- **Rebalancing energy taxation and levies** to remove persistent distortions that penalise electricity relative to fossil fuels and undermine the economic case for electrification.
- **Preserving a strong and predictable EU Emissions Trading System**, avoiding fragmented national approaches and reinvesting ETS revenues in electrification, clean-tech deployment, and enabling infrastructure.
- **Scaling long-term contracts for renewables** through longer-duration CfDs, predictable auction calendars, and broader access to PPAs in order to stabilise prices and investment conditions for both producers and consumers.
- **Unlocking repowering and flexibility**, recognising their system value and removing regulatory barriers that prevent optimisation of existing assets.
- **Accelerating grid development** at transmission and distribution level as a non-negotiable enabler of electrification, renewable integration, and system efficiency.
- **Applying Overriding Public Interest** consistently to renewable, grid, storage, and flexibility projects, ensuring that permitting frameworks reflect the strategic importance of the energy transition and translate policy ambition into timely delivery.

Delivering these priorities would strengthen not only decarbonisation, but also Europe's competitiveness, resilience and strategic autonomy, reducing exposure to imported fossil fuels while reinforcing the continent's industrial base.

By aligning these levers within a coherent and predictable framework, Europe can move from a transition driven primarily by supply expansion to one anchored in effective demand, system resilience, and industrial competitiveness. Clean electricity can then become not only the backbone of decarbonisation, but also a durable structural advantage for Europe's economy and society.

PLENARY 2. THE FUTURE OF COHESION POLICIES (AND OF THE NEXT GENERATION EU)

Francesco Grillo, Francesca Stefani and Dario Dell’Otti.

1. What is at stake? The policy defining three decades of the EU budget

Cohesion Policy has been one of the central pillars of the EU budget since 1989, absorbing between roughly one third and one half of total EU expenditure. Originally designed to reduce regional disparities in GDP per capita, it has progressively expanded its scope to multiple objectives, including climate, innovation, and broad territorial development. This expansion has diluted its focus and made performance evaluation increasingly difficult.

Today, when ERDF, ESF+ and the Recovery and Resilience Facility are considered together, cohesion-related spending exceeds one trillion euros. This scale highlights both the importance of the policy area and the growing complexity of its governance.

A key distinction emerges between traditional Cohesion Policy, based on shared management, standardized programming, and ex-ante approved structures, and the RRF model, which is based on national plans, milestones, and Commission-certified results. This dual system now defines the EU investment architecture and raises questions about coherence, accountability, and effectiveness.

2. The evolution of CP performance

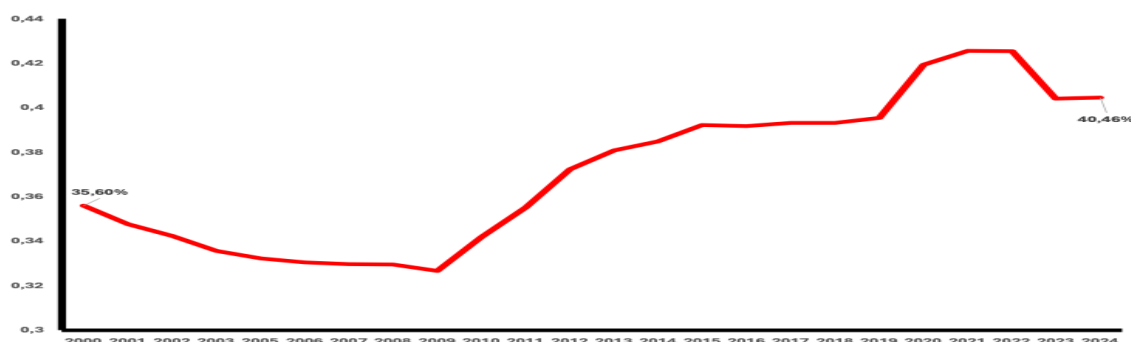
Overall evidence on Cohesion Policy performance suggests a mixed and increasingly uneven picture. While EU regional disparities declined up to around 2009, they have since widened, particularly within older Member States. Several long-standing beneficiary regions have not converged towards EU averages despite sustained transfers, while many regions in Central and Eastern Europe have experienced stronger convergence dynamics following EU accession.

At the same time, implementation remains slow and uneven across Member States, with only a limited share of 2021–2027 allocations actually disbursed by late 2024. This raises concerns not only about efficiency but also about the capacity of the current system to translate financial resources into timely economic impact.

2.1 One of the defining policies of the Union is losing steam...

Although Article 174 TFEU enshrines economic, social and territorial cohesion as a core EU objective, both political expectations and measurable outcomes appear to have weakened over time. The empirical evidence points to a gradual increase in regional disparities in the EU15, despite decades of structural funding.

Chart 2.1: Standard deviation from the average GDP per capita of regions (2000 –2024, % from 0 – as a theoretical total equality, EU 15 old member states).



Source: Vision on EUROSTAT

It is not less interesting to look to what happened to the ten Regions which have been the largest beneficiaries of the European Regional Development Fund.

Table 2.1: Yearly convergence to the EU average GDP per capita of ten Regions largest beneficiaries of the European Regional Development Fund (GDP growth rates between 2000 –2024, Billion EURO spent between 1989 and 2018).

Region		
Andalucía	-0,21%	22
Campania	-1,03%	13,2
Norte (PT)	0,33%	13,1
Sicilia	-1,01%	11,7
Attiki	-0,48%	9,3
Centro (PT)	0,10%	9,1
Puglia	-1,00%	8,8
Galicia	0,52%	8,3
Comunitat Valenciana	-0,74%	7,4
Castilla y León	-0,06%	6,8

This suggests a decline in the perceived effectiveness of cohesion instruments in delivering convergence.

2.2 ... and yet we should not throw away the baby with the dirty water

Despite these limitations, several features of Structural Funds remain valuable and should be preserved. These include rigorous evaluation frameworks (ex ante, in itinere and ex post), financial tracking requirements ensuring traceability of spending, performance-based incentives, and the development of smart specialisation strategies. While imperfectly implemented, these elements have contributed to building a durable administrative and policy practice that remains relevant for future reforms.

3. Preliminary assessment of the NGEU/RRF.

The NEXT GENERATION EU was launched in May 2020 in one of the longest councils⁶⁶ of the EU history (and one of the latest that Angela Merkel joined as Germany's chancellor in nearly 16 years). The one which was greeted as the EU "Hamiltonian moment" because it "broke a glass ceiling" (the taboo on common debt), as Economic Affairs Commissioner Gentiloni⁶⁷ said.

NGEU gave the strong signal that the EU was getting together in one of its darkest hours (at the time of the COVID19 – pandemic where the GDPs of all EU countries simultaneously collapsed): the signal we had been missing since 2012, when the European Central Bank's President Mario Draghi decided to intervene to save the Euro with whatever unconventional weapons this would have taken.

The NGEU's most important instrument was the Recovery and Resilience Facility (RRF) whose regulation was (probably too quickly devised and) issued on the 12th February 2021⁶⁸.

A few features of the RRF appear to be a radical implementation of innovations that the debate on CP had nurtured for decades:

1. The idea of linking payments to reaching not only to payments but to delivery of results (targets which appear associated not just to the notion of the physical outputs but of the outcomes that a certain investment was aiming for) expected by investments is certainly an interesting one (and it must be said built on intuitions developed within CP as for experiments made on payments by results and on financing/payments linked to standard and not actual costs) .
2. Similarly, the introduction of the concept of financing conditional to reforms (sometimes meant as capable of unlocking the impact of the investments themselves) is interesting.

A consequence of the above seems to have been that...

3.1. ...the plan is proceeding more rapidly than the CP programs.

This is especially true if we consider the largest recipient (35% of the total recipient) of the RRF money: Italy.

As far as disbursement from the European Commission, the country has received already 85% of the initial allocations and nine of the instalments expected from the EC⁶⁹; although the financial advancement has been slower; the country has spent half of the initial allocation by the end of 2025 according to Italy's government⁷⁰.

⁶⁶ chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.consilium.europa.eu/media/45109/210720-euco-final-conclusions-en.pdf

⁶⁷ Gentiloni will be one of the leaders that Siena will gather when discussing the shape that the EUROPE of the FUTURE may get.

⁶⁸ chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R0241

⁶⁹ <https://www.governo.it/it/articolo/pnrr-l-italia-riceve-il-pagamento-della-nona-e-penultima-rata-pari-12.8-miliardi-di-euro>

⁷⁰ <https://www.strutturapnrr.gov.it/media/m2yfwkz/settimana-relazione-al-parlamento-sezione-i.pdf>

3.2 Not all that glitters is gold, and the case of Italy

The external "[interim assessment](#)"⁷¹ of the RRF released in December 2023 is the only official independent evaluation that the European Commission has carried as far as the overall evaluation of the instrument. The study acknowledged the limitations of using the data from only the 18 months which followed the approval of the first national plans. It is, thus, in between an *ex-ante* and *in itinere* evaluation. The assessment was, however, positive about

- 1) the impact of the instrument on the GDP (both in terms of the improvement versus the baseline in the first two years of the implementation and expected cumulative long-term impact by 2041). Due to its timing, this evaluation, however, had the limit to be a forecast of a macroeconomic model⁷² entirely based on the speed and categories of disbursements from the EC to Member States.

The limits are that we do not know how much of those disbursements actually reached families and firms; but also, that a macroeconomic analysis does not capture – per definition – the quality of the choices made by the plan vis-à-vis industry and place-specific problems.

- 2) The study, however, also reported good feedback on the effect of combining reforms with investments. The limit of this assessment is that, again, it was constructed based on the responses to a number of interviews and questionnaires received from people involved into the implementation.
- 3) The evaluation was, instead, more problematic about the complexity of the procedures (considered “comparable to the cohesion policies”), the speed of the implementation and the flexibility of the plan vis-à-vis external shocks.

Therefore, the “lessons learned” and **the suggestions from the report were mainly about reducing the red tape**. Since then, the EC and Member states did agree on adopting a lot of flexibility and the RRF procedures are about to reach the initial deadline of the end of June 2026 without major dramas. And yet it is the overall impact of the NGEU on the “recovery” and the “resilience” of the European Union which appears to be much less positive than forecasted by the first (and only) comprehensive official independent evaluation.

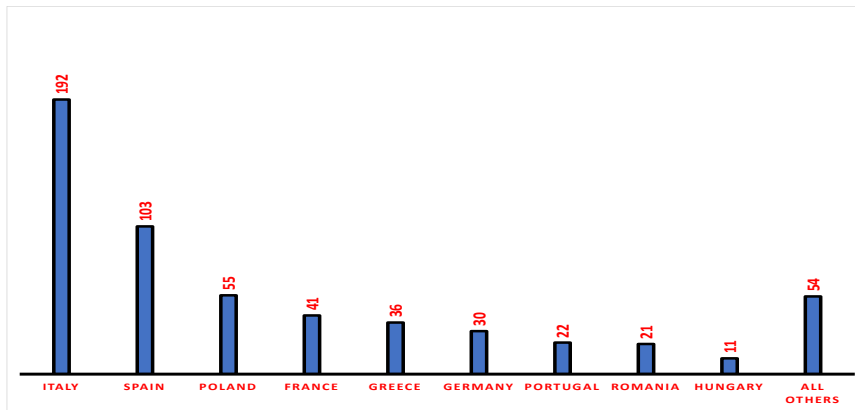
As far as the economic impact, some interesting insights have come from Italy, the country that has – by far – been the largest beneficiary of the RRF.

The allocation of the NGEU did, indeed, have a remarkable characteristic. It was very uneven amongst countries, and it is enough to consider just 2 of the 27 member states (Italy and Spain) count for more than half of the funds.

Chart 2.2: Distribution of the RRF funds by country (billions euro; only the loans being activated and plans being approved; %; 100% = 564 BN).

⁷¹ Prepared by ECORYS, CEPS, CSIL, NIESR, and Wavestone for the European Commission, Directorate-General for Economic and Financial Affairs

⁷² National Institute Global Econometric Model (NiGEM)



More specifically, Italy absorbs more than one third of the overall NGEU and – unlike Spain it has received the money earlier (Spain only decided to add the “loan” part of the money to the grants at a later stage).

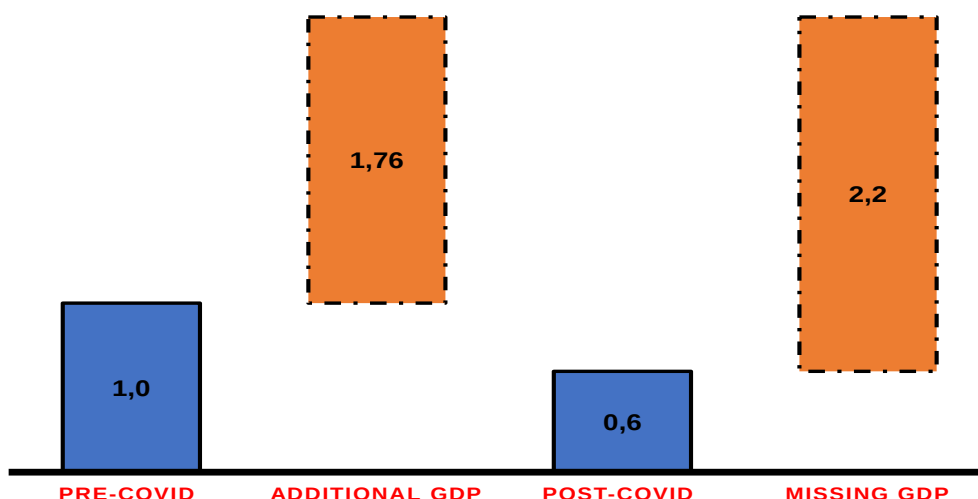
Almost two hundred (194,4⁷³) billion (the money allocated to Italy is also significant relative to the country’s GDP (almost 10% of the GDP). Italy can, then, provide a strong signal on whether the NGEU has worked (and one may even argue that one of the problems of NGEU may have been the decision to “put all the eggs in one basket”). A preliminary assessment seems to point at problems of delivery that the independent evaluation could not spot. In terms of the main (although imperfect) indicator that any development plan should consider: GDP.

The following chart attempts an evaluation by considering:

- The growth rate (“*PRE COVID*” in the graph) of Italy’s GDP in the five years before the COVID19 (2015 – 2020) as a proxy of the baseline that we would have had without the RRF;
- The per-year weight on Italy’s GDP of the RRF’s expected expenditures in the five years of RRF’s duration (2022 – 2026) as a first attempt to calculate the impact of the RRF (such a hypothesis discounts a pessimistic assumption of a multiplier being 1); the graph calls is “*additional GDP*” and we eventually
- compare the potential average growth of GDP in the five years (that we obtain adding our proxy of baseline with our preliminary proxy of “impact”) with the actual growth that the country is experiencing in the five years (“*POST COVID*”).

Chart 2.3: Preliminary assessment of the economic impact of the RRF (Italy; %; pre – COVID = 2015 – 2019 as a proxy of baseline; RRF period = 2022 – 2026; RRF funds/ GDP/ 5 years as a proxy of impact with a multiplier equal to 1).

⁷³ Including the extra financing of 2 billion linked to the RePoer EU initiative.



Source: Vision on EUROSTAT and IMF data

It seems that we are missing 2 percentage points of expected growth per year.

It is an assessment that has got four limits: it is far from being the result of a macroeconomic exercises; the pre COVID average growth may be a higher baseline than the one that we should calculate considering the many wars and disruptions we had; payments may not be (for some technical reason we omit here, surely they will not) 100% of the allocation by 2026 (as theoretically required by the regulation of the RRF); some of the investments were meant not be “additional” to the ones that the country was already planning.

And yet the magnitude of the missing growth is impressive and in any case it is remarkable that Italy is growing less while spending 200 billion of RRF (overall 10% of its GDP) than without.

The result is, indeed, confirmed by two other pieces of evidence:

- a) The first comes from the official document (the PNNR) that the then PM Mario Draghi sent to the European Commission as the plan that the EC and Italy’s institutions eventually approved. In the last session of that document the RRF is expected to add to the “baseline” 3,6% of GDP in 2026 and 3,1% in 2025. The impact was expected to be much bigger than the one we are considering and that compares with a growth rate of 0,6% for the two years. If we assume that the expected impact has been achieved, this will mean that the “baseline” for the Italian economy would have been a sharp reduction of more than 2 % per year.

This seems to be not plausible and, again, this is a sign that the RRF failed its main objective.

- b) The second comes from recalculating the “baseline” by assuming that, in the absence of the RRF, the Italian economy would have continued to record the same GDP growth gap vis-à-vis the EU average as before COVID. This allows us to discount the effects of common shocks, such as wars and other disruptions, which should have affected Italy and the EU in a broadly similar way. Even under this more conservative assumption, the result remains broadly unchanged, confirming the limited growth impact of the RRF.

Before COVID-19 (in the 2014 – 2019), Italy was growing (1,0% versus 2,2%). However, the weight on the GDP (as a proxy of potential impact) of the RRF was 1,76% per year and 0,4% in the EU. This may have translated into Italy growing about 0,6% more than the EU while spending the RRF. Instead, Italy continues to trail the EU, although the gap has been reduced (to 0,6% and in 2026 Italy will again be in the last position amongst EU countries in terms of growth).

All these estimates have the limits of almost back-of-the-envelope methods. And yet the magnitude of the (as somebody have put it) “disappeared PNRR” is so large that it is safe to argue that the innovation did not come without limitations.

The proposal from the EU:

[The proposal of the European Commission](#) to the European Parliament and European Council for establishing one “European Fund for economic, social and territorial cohesion, agriculture and rural, fisheries and maritime, prosperity and security for the period 2028-2034” issued on the 16th July 2025, was based upon an [impact assessment](#). The overall idea is “to move from about 540 programs and eleven different funds ⁷⁴ to 27 plans (called national and regional partnerships) so to reduce overlaps and increase synergies.

However, the “impact assessment” appears to assume that necessarily the RRF is “better value for money” and the regulation proposes to switch radically from payments to milestones/ targets. Both proposals - the architecture by 27 regional/ national plans and the adoption of the milestones/ targets – need some better design.

Seven ideas for a reform: a synthesis between cohesion and NGEU:

We suggest seven preliminary ideas that should be further articulated by the follow-ups that the Siena conference is planning:

1) Structured flexibility.

The EC is right when it asks to streamline the facilities (in terms of number of facilities at EU level and number of programs/ managing authorities within a country) in NRP so that there is more integration and less over-laps. We, however, also believe that within this redesign “cohesion” policies must be refocused on “cohesion” meaning by that reductions of the inequalities that risk to fragment the Union, whereas this notion must be extended to not territorial inequalities. The consequence of this is that the new “cohesion policies” may not have the universal geographic coverage (we would argue that Luxembourg and, more generally, developed regions may find their territorial funding in other envelopes) nor the scope (the fight to climate change itself may be pursued with different lines of the EU

⁷⁴ Cohesion Fund, European Regional Development Fund, European Social Fund+, the Just Transition Fund. European Agricultural

Guarantee Fund, European Agricultural Fund for Rural Development, European Maritime, Fisheries and Aquaculture Fund. Asylum, Migration and Integration Fund, the Border Management and Visa Instrument and the Internal Security Fund. The 2021-2027 long-term budget also introduced the Brexit Adjustment Reserve and the Recovery and Resilience Facility. Last but not least, outside the multiannual financial framework or the EU budget, there are the Social Climate Fund (from 2026) and the Modernisation Fund.

budget). More importantly, the country-specific NRP must still be structured so that there is comparability amongst countries and across programs so that the performances can be assessed and knowledge can be generated. One idea is that the new “national/ regional partnerships” will be structured along five interconnected policies targeting:

- a) territorial inequalities, which will be organized by place-based strategies, where the places will be at enough of a coherent level (normally regional, although some of the “regions” appear too large and some others are too small express such a coherent strategy);
- b) generational inequalities that will be normally pursued at the national level (so to tackle the education, labor market, housing issues);
- c) urban inequalities which is about integration within cities (including immigrants);
- d) agricultural policies to leverage on the industry-specific knowledge accumulated in almost 80 years of CAP;
- e) Interreg and experimentation.

2) Milestones and targets as a lever for accountability.

The idea to replace “payments to beneficiaries” with concrete results (milestones/ reforms and targets) for releasing disbursements from the European Commission to member states is a good idea. However, the RRF’s ones were too many 7,092 results to monitor for 27 national plans. They must become much more transparent (and understandable) so that citizens can hold institutions accountable for their delivery. Milestones must be focused on few, key “reforms” (not accomplishment of procedures) whereas a clarification of what “reforms” are, appear necessary. More importantly, they must be always attached to incentives/ consequences.

3) Crises, failures and evaluations.

One of the weaknesses of the current programming periods is its rigidity for a period which is way too long (even in the Soviet Union plans were for a shorter, five-year period). In a world where crises are becoming more frequent and destructive we cannot afford plans to stay the same for seven years. And yet we cannot govern plans by changing them continuously and at microlevels of micro measures.

4) Subsidiarity for efficiency.

A flexible system of subsidiarity should also be established. The key is to give substance to the long-announced idea that the management of policies should be established where it is governed more efficiently (and citizens are better engaged). If an administration (region or ministry) falls behind within a certain fixed timeframe, there must be a remedy: either a technical structure will replace it (whereas the technical structure can also include managers remunerated based on their ability to achieve a specific result); or the policy is moved to an alternative institutional level.

5) New policies for new inequalities: the role of social infrastructures

Before defining instruments and governance mechanisms, it may be useful to further clarify how new investment priorities within the next EU budget - and the legacy of NextGenerationEU - could evolve in response to emerging challenges.

With this in mind, one area that could benefit from greater consideration is the role of social infrastructure as a driver of long-term development, competitiveness and resilience. Social infrastructure can be understood in a broad and forward-looking sense, encompassing not only “traditional sectors” such as healthcare, education and housing, but also domains that are still less prominently reflected in EU strategies and funding - such as, for example, sport, culture and community-based infrastructure. These areas make an important contribution to human capital, social cohesion, productivity and territorial attractiveness, and could play an increasingly visible role within the overall policy framework.

A stronger and more explicit focus on social infrastructure could help further anchor EU policies around a tangible and widely shared objective: expanding access to opportunities for citizens, strengthening communities, and enhancing the resilience of territories.

6) Public/ private partnerships and pay-by-results contracts.

Whenever possible, greater use could be made of innovative financial instruments, payment-by-results schemes and public-private partnerships, to complement traditional public funding and enhance the overall effectiveness of EU policies, while ensuring additionality in the use of public resources.

From this perspective, public-private partnerships should not be seen merely as marginal or complementary tools, but as a potentially valuable pillar of the future implementation model, particularly where they can add value in terms of scale, efficiency and expertise. This would imply, where appropriate, a more systematic recourse to blended finance schemes, where public resources are used in a strategic way to de-risk projects, facilitate coordination across initiatives and help structure more coherent pipelines - especially in contexts where market failures limit the effective delivery of projects.

In this context, public development banks and national promotional institutions can play an important enabling role, acting as a bridge between public policy objectives and project implementation. Such approaches may prove especially relevant in areas characterized by high social value and fragmented interventions, where the benefits for communities and territories are significant, even if they are not always immediately captured through traditional financial metrics. More broadly, these “tools” can help enhance the effectiveness of public resources, while also bringing in additional competences - particularly in areas such as project structuring, implementation and long-term sustainability that can usefully complement public sector capacity.

7) Another Hamiltonian moment?

The NGEU was mainly seen as the historical first for issuing common debt in a sizeable way vis-a-vis an economic and health emergency. The result of the facility is, as we just mentioned, a mixed bag of good intuitions, delivery mechanisms that need to be revised and questionable impact: this may cast doubts on the convenience to replicate something like

the NGEU as such. On the other hand, policies for cohesion (like the rest of the EU budget) obviously calls for more EU “own resources” (common debt or EU taxation) and less endless “zero sum games” on constrained transfers from MS. One possibility would be to apply even to cohesion policies the “pragmatic federalism” the Siena conference is trying to operationalize. Mechanisms should be devised to allow subset of countries to jointly issue debt to finance cohesion-related European public goods.

These ideas are to be considered as a contribution to a debate that is urgent. The conservation of the status quo is not an option; however, we cannot dismiss one of the most defining features of the European Union’s project without a collective problem-solving like the one that the Siena conference is promoting.

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PLENARY 3. NEW PRIORITIES FOR THE EU BUDGET: A VISION FOR AGRICULTURE AND FOOD (A POLICY BRIEF)

In Partnership with SDA Bocconi



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Andrea Conconi, Vitaliano Fiorillo

Abstract

For decades, the Common Agricultural Policy (CAP) has provided income stability and resilience to European agriculture. Yet, the structural challenges facing the sector today require a different policy approach. While direct payments continue to support farm incomes, they do little to strengthen the underlying drivers of long-term competitiveness. This Policy Brief originates from a broader strategic reflection developed in collaboration with Confagricoltura on the future trajectories of the Italian and European agricultural sector towards 2050. It represents a concise and policy-oriented synthesis of that work, adapted to the objectives of the conference and focused on one of its central themes: the role of CAP in enabling agricultural competitiveness. The Brief argues that the post-2027 CAP should shift from protecting farms from market pressures to enabling them to compete more effectively within agricultural value chains. It identifies three key pillars of competitiveness: farm organisation and scale, managerial capacity, and access to finance. Addressing these dimensions simultaneously is essential, as fragmented farms, weak managerial capabilities, and undercapitalisation reinforce one another.

The Brief thus proposes a CAP centred on enterprise enablement, promoting aggregation and vertical integration, strengthening managerial competencies, and mobilising private investment through blended finance instruments. By focusing on the conditions that generate competitiveness rather than compensating for its absence, the CAP can better support the long-term resilience, productivity, and transformation of European agriculture.

Executive Summary

For seventy years, the Common Agricultural Policy has been Europe's system to stabilize farmers' incomes, support rural territories, and absorbed successive shocks, from

commodity price volatility to climate disruption. Still, the architecture of the CAP was designed around a different agricultural economy, in which the support to farm incomes was both politically necessary and economically coherent. Today, with farmers representing roughly 5% of EU employment (Eurostat, 2023) and agriculture accounting for approximately 1.3% of EU GDP (Eurostat, 2023) while remaining the economic and social backbone of large parts of rural Europe, the gap between what the policy does and what the sector needs has probably widened.

The relevant question this Policy Brief aims to address is **what a competitiveness-oriented CAP would look like in practical terms**. The competitive focus indicates that the primary shift needed is the one from protecting farms from market pressures to **enabling them to compete within those markets, capture value along the chain, and invest in their own structural transformation**. This is a harder policy design challenge than it appears, and it requires the analysis of three dimensions of agricultural competitiveness: the organisation and scale of farm enterprises, the managerial skills and human capital within them, and their relationship with private financial markets.

The sector at a crossroads

European agriculture is productive, strategically indispensable, and deeply fragile in ways that aggregate statistics obscure. In 2023, the EU counted an estimated 8.4 million farms, namely 5.6 million fewer than in 2005, a decline of 39% driven almost entirely by the disappearance of small holdings (Eurostat, 2026). This structural consolidation has proceeded without guidance, reducing farm numbers without systematically improving the market position, value chain integration, or investment capacity among the farms that remain.

In Italy, the fragmentation is even more acute. 78% of farms operate on less than 10 hectares of utilised agricultural area, against a national average of 11 hectares, itself well below the EU average of around 17.8 hectares (ISTAT, 7th Agricultural Census 2020; Eurostat Farm Structure Survey 2023). The consequence is not merely one of scale economics, but a structural constraint on negotiating power within value chains, on the capacity to absorb investment risk, and on the ability to engage with financial instruments designed for enterprises with predictable cash flows and bankable assets. The generational dimension compounds the structural one. The average age of EU farm managers has risen from 55 in 2010 to 57 in 2020, while only 11.9% of managers are under 40 and just 6% are under 35 (Eurostat, Agricultural Census 2020; European Commission DG AGRI, 2025). In Italy, the share of farm managers under 35 falls below 5% of holdings (ISTAT, 2020). This is not only a demographic challenge, because generational renewal is the primary channel through which new managerial competencies, technological aptitudes, and risk tolerance enter the sector. Even if it stalls, so does the capacity for transformation. A delayed generational renewal equals competitiveness deferral.

A structural renewal is needed also on the side of financial management. More than 60% of the CAP budget is targeted at income support (EU CAP Network, 2024), creating a floor that has simultaneously protected farm incomes and reduced the sector's incentive to develop independent financial credibility. As a result, agriculture remains among the sectors with the lowest rates of external private investment in Europe, despite a recent growing interest from funds, impact investors, and infrastructure capital in food systems as a strategic asset class. Problematically, today, the demand for agricultural investment and the supply of capital oriented toward the sector remain structurally mismatched in scale.

Rethinking CAP's purpose

The distinction between supporting income and enabling competitiveness is a design distinction with concrete implications for how resources are allocated. Income support in its direct payment form is a transfer that compensates for the gap between market returns and a politically acceptable income floor. Still, it is decoupled from performance, investment, or structural change. Its area-based logic means it flows proportionally to land, not to productive capacity, strategic value, or future potential. Under the current area-based payment logic, competitive behaviour and structural inertia are compensated identically.

A competitiveness-oriented CAP would direct its weight toward enabling conditions rather than compensating for their absence. Enabling conditions are those that allow farms to generate sustainable returns, negotiate equitably within value chains, and invest in their own transformation. The focal point this reorientation demands, then, is how public resources can be made conditional on the behaviours, investments, and structural choices that actually drive competitiveness. Answering this requires moving from a payment architecture built around what farms are, to one built around what farms do, meaning how they organise, how they invest, how they engage with markets and private capital. These three structural dimensions identify where that shift would need to bite:

1) Farm structure and scale

A competitiveness-oriented CAP would need to engage more deliberately with the question of farm organisation not by simply mandating mergers, but by creating the normative, fiscal, and financial conditions that make horizontal cooperation among farms and vertical integration within value chains structurally and economically attractive. This means, concretely, to support producer organisations and supply chain contracts not merely as optional instruments but as the preferred organisational form for accessing CAP investment measures; it means designing rural development programmes around aggregation incentives rather than individual firm subsidies; and it means recognising that the negotiating asymmetry between fragmented primary producers and consolidated distribution is not a market outcome to be accepted but a structural failure to be addressed. Farms that cannot negotiate within their value chain on equitable terms will not be competitive regardless of how much technology they adopt or how efficiently they manage their operations. Horizontal scale is a precondition for vertical power, and policy design should reflect this sequence.

2) Managerial competence and human capital

Managerial competency is the precondition that determines whether every other policy instrument produces its intended effects. Investment measures, aggregation incentives, and financial instruments all underperform when the enterprises they are designed to serve lack the capacity to evaluate, structure, and execute on the opportunities they create. A farm manager that cannot read a balance sheet, assess a technology investment, or negotiate a supply chain contract is constrained by capability, with no payment scheme able to solve the issue.

The evidence from the Italian agricultural sector points to three specific gaps where this constraint is most acute. The first is succession planning, which remains predominantly an informal family process with consequences for asset continuity, business viability, and the conditions under which new generations actually take over. Structured support could be able to convert succession from a recurring source of productive discontinuity into a manageable transition. The second is financial literacy: the ability to prepare financial statements, engage with credit institutions, and evaluate investment returns is not widespread among farm managers, and its absence is one of the principal reasons why private capital and

agricultural enterprises fail to connect at scale. The third is market positioning: understanding value chains, negotiating with distributors, and building commercial relationships require competencies that the agricultural training system has historically underweighted relative to agronomic and technical skills.

Taken together, these gaps suggest that the CAP's rural development instruments should be redesigned around the logic of enterprise enablement, conditioning investment support, aggregation incentives, and financial instruments on demonstrable managerial capacity.

3) Access to private capital

The capitalisation gap between European agriculture and other productive sectors reflects both structural features of the sector and policy-induced distortions. When public transfers provide a *de facto* income floor, agriculture becomes simultaneously dependent on them and unattractive to private investors who cannot price risk independently of the policy environment. This is a circular problem: income support reduces the sector's financial credibility, which reduces private capital flows, which increases dependence on income support.

Closing this gap requires action on both sides.

From the sector, it requires greater financial transparency and the development of standardised reporting frameworks that allow farm enterprises to communicate their economic performance, asset base, and risk profile. It also requires the development of markets for ecosystem services that can translate the non-market value of agricultural production into investable and bankable flows, providing a new asset class that connects agricultural practice to impact capital.

From the policy perspective, instead, it requires blended finance instruments that leverage rather than substitute private capital, the repositioning of public development finance institutions toward primary production and guarantee mechanisms that reduce the perceived risk premium that currently prices private capital out of agricultural lending at the scale the sector needs. The post-2027 CAP's rural development pillar is the natural home for these instruments, but only if it is redesigned around leverage ratios and private capital mobilisation rather than public expenditure targets.

Recommendations and conclusions

The three dimensions discussed in this Brief are not independent policy problems. Fragmented farms struggle to develop managerial depth, under-managed farms cannot build the financial credibility that attracts private capital, and undercapitalised farms lack the resources to invest in the organisational and human capital transformation that competitiveness requires. A CAP reform that addresses only one of them without the others will underperform by design.

What connects them is a common logic: each requires the policy to shift from providing transfers to creating enabling conditions. Aggregation becomes structurally attractive when the normative and fiscal environment makes collaboration more rewarding than isolation; managerial capacity develops when investment support is conditioned on demonstrable competency; private capital flows when farms can present bankable financial profiles and when public instruments are designed to leverage rather than substitute market finance.

Translating this logic into policy directions, three priorities stand out.

On farm structure, horizontal cooperation and vertical integration should become the preferred organisational pathway for accessing CAP investment support, not optional instruments at the margins of programming.

On managerial capacity, succession planning should be treated as structured policy deliverables with dedicated instruments and measurable outcomes.

On private capital, the reform should prioritise blended finance mechanisms and reorient public development finance toward primary production, with the explicit objective of mobilising private investment rather than substituting it.

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PLENARY 4. DRAFTING THE EUROPEAN DIGITAL STRATEGY IN THE AI ERA: A THIRD WAY BETWEEN USA AND CHINA AND A TIME PLAN FOR ACHIEVING AUTONOMY

In partnership with REIMAGINE EUROPA

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Europe's Digital Sovereignty: From Ambition to Action

Europe is not a digital wasteland. It is home to ASML, the sole global supplier of the lithography machines without which no advanced GPU can be manufactured. It has pioneered industrial IoT and fintech, and built genuinely global consumer brands like Booking.com in sectors such as travel and culture where Europe is already a superpower. As a matter of fact, Europe seems to be a continent that has systematically undervalued its own hand.

The central challenge of the next decade is to play that hand with clarity and confidence. Three questions frame the agenda:

- Where does Europe have a genuine competitive edge it can leverage in the new technological contest with the United States and China?
- Where does it need to assert sovereign control, and where can it afford optionality?
- And what must policymakers actually do rather than simply declare?

On the first question, the answer requires an honest audit of European strength: a semiconductor ecosystem anchored by ASML; an unmatched industrial base ripe for AI-driven transformation; and a legal and regulatory environment that, precisely because it is stable and rule-based, is an asset in global innovation value chains that increasingly demand predictability. At a time when the relationship between hyperscalers and their home governments is visibly volatile, Europe's constitutional stability is a competitive advantage that goes largely unspoken and unexploited.

On the second question, Europe must resist two symmetrical errors. The first is the illusion of full autarky and so the belief that Europe can or should replicate every layer of the global digital stack domestically.

It cannot, and the attempt would be costly and counterproductive.

The second error is the opposite: passive dependence, assuming that critical services can always be sourced from external providers on acceptable terms.

The right frame is minimum viable sovereignty: full control where it is non-negotiable like in cybersecurity, intelligence; optionality where it matters strategically like in cloud infrastructure, AI models and deep interoperability where global scale is the goal, as with IoT and machine commerce. Today's EU approach too often inverts this logic, launching packages of initiatives and hoping outcomes will follow.

On the third question the answers are both structural and political. Structurally, Europe needs what it has deferred for too long: a genuine digital single market and a functioning capital markets union. These are the precondition for the investment scale that sovereignty requires and without them, European savings will continue to fund American and Chinese competitors. In parallel, the current model of 27 national digital industrial policies must give way to a genuinely European one. France has the energy capacity to host next-generation data centres. Germany has an industrial base that can serve as the testbed for machine commerce and AI-driven manufacturing. The United Kingdom brings deep talent and a proven ability to incubate and scale startups. These are complementary strengths, not competing claims.

The roadmap follows from these principles. In the short term (2026–2027), the priority is coordination and capital: standing up a Digital Sovereignty Implementation Taskforce, launching Sovereign Cloud procurement guidance to begin redirecting the €264 billion that flows annually to non-EU providers, kicking off AI Gigafactories on EuroHPC infrastructure, and capitalising the Sovereign Tech Fund and ScaleUp Europe Fund before global competitors lock in structural advantages. In the medium term (2028–2030), the focus shifts to delivery and irreversibility: 75% of EU companies on the European Business Wallet, sectoral data spaces fully deployed, the Digital Euro operating at scale, and a Digital Autonomy Index embedded in the Digital Decade revision to hold policymakers accountable.

One final word on ambition. Rather than waiting for a European AI unicorn to emerge and compete globally, an unlikely outcome in the current environment, Europe should leverage its rule-of-law advantage to attract the world's most innovative companies here. The question of whether a firm like Anthropic could be convinced to anchor significant R&D and critical operations in Europe is not rhetorical. That requires both the positive offer of a genuine single market and the discipline to stop generating difficult regulations faster than business can absorb them.

The Roadmap

Short term (2026–2027) — foundations:

- Launch the EU Digital Sovereignty package (building on Digital Decade, Chips Act, AI Act, EuroStack)

- Stand up the Digital Sovereignty Implementation Taskforce
- Issue Sovereign Cloud common procurement guidance; begin redirecting the €264bn annual flow to non-EU providers
- Kick off AI Gigafactories on EuroHPC infrastructure
- Capitalise the Sovereign Tech Fund and ScaleUp Europe Fund
- Pilot the "Buy European" procurement rule and 28th regime in willing member states

Medium term (2028–2030) — delivery and lock-in:

- 75% of EU companies on the European Business Wallet; 50% AI uptake in manufacturing, 75% in public services
- Sectoral data spaces (health, energy, mobility, agrifood) fully deployed
- Digital Euro operational at scale
- Quantum Act, drone communications infrastructure and IRIS² from pilot to market

PLENARY 5. A EUROPEAN SECURITY COUNCIL FOR A EUROPEAN SECURITY STRATEGY (A PROPOSAL)

In partnership with Konrad-Adenauer-Stiftung

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Europe Needs a Security Council of Its Own

One year into the second Trump administration, the transatlantic partnership is under the most serious strain since its inception. The mutual trust, shared threat perception, and coordinated action that once formed the basis of this partnership are now being replaced by uncertainty and desperate hedging by the Europeans. Experts are openly discussing the risk of rupture. Meanwhile, policymakers quietly ask more radical questions: 'Can Europeans

still rely on the United States as the ultimate security guarantor?' and 'Can Europe defend itself alone if needed?' Recent U.S. strategic documents reinforce these concerns. The latest National Security and National Defence strategies signal a reduced prioritisation of European security and a shift of American strategic focus to the Western Hemisphere and the Indo-Pacific. Regardless of whether this shift proves to be structural or cyclical, Europeans can no longer afford to treat it as temporary political turbulence.

At the same time, the security environment around Europe is deteriorating. Russian aggression remains persistent, hybrid threats are intensifying, and global instability is spreading from the Middle East to the Arctic region and from Eastern Europe to the Asia-Pacific region, directly impacting European interests. NATO should remain the cornerstone of transatlantic defence, and the Europeans should do all they can to preserve the alliance. Nevertheless, a European initiative to address European security challenges is needed.

In recent years, the European Union has made significant strides towards developing a more integrated European defence policy. Institutional reforms, including the appointment of a

Commissioner for Defence and Space, the upgrading of the European Parliament's Subcommittee on Security and Defence to a full committee, the publication of the White Paper on Defence and the Defence Readiness Roadmap 2030, demonstrate a growing consensus that the EU must evolve into a credible security actor, complementing NATO and building its European Defence Union.

However, the European Union still lacks a common strategic culture and a rapid political decision-making mechanism on security and defence. The impact of the EU Defence Ministers' meetings within the Foreign Affairs Council remains limited. Too often, these meetings reflect the lowest common denominator among 27 member states rather than a timely, unified and targeted response to Europe's rapidly evolving security environment. As Commissioner Kūbiľius recently argued, "material defence readiness" is no longer sufficient. Europeans must also build institutional and political defence readiness. On this point, this author agrees with Commissioner Kūbiľius that the EU should establish a European Security Council (ESC).

The idea of a European Security Council is not new, nor is the Martens Centre a stranger to it. Between 2017 and 2019, both President Macron and former Chancellor Merkel expressed their support for the idea, and in 2019 the Martens Centre published the then-most-comprehensive study on 'A Blueprint for a European Security Council'. More recently, in autumn 2025, the Martens Centre updated its definition of a European Security Council as part of its 'Strategic Policy Recommendations for the European People's Party'.

This current proposal complements the existing European institutional framework on security and defence. A European Security Council should therefore be an intergovernmental body within the European Council/Council of the EU, offering a platform for high-level political discussions and decisions on security and defence at the level of heads of state and government, and — when the focus is on technical coordination and implementation — at the level of ministers of defence. The President of the European Council would chair the body to ensure political authority and institutional continuity.

The purpose of the ESC is straightforward: to provide the European Union with a structured, permanent forum for deliberations and decision-making on strategic security and defence. Currently, Europe relies on a patchwork of contact groups, ad hoc coalitions, and slow-

moving institutional mechanisms. These arrangements often lead to fragmentation, result in overlapping efforts and fail to project the 'language of power' that European citizens are increasingly expecting. The ESC would streamline these disparate formats, reduce duplication and foster more coherent coordination among member states.

The Council's primary function would be to facilitate dialogue on shared interests, thereby promoting the coordination and alignment of positions on defence capabilities, defence readiness, the common defence market, European support for Ukraine, and European responses to various crises. Chaired by the President of the European Council, this body would systematically assess international developments and formulate collective strategies. It would also coordinate relevant policies across the Union and lead Europe-wide responses to global and regional security challenges. The European Security Council could more quickly bridge divergent national interests and build qualified majorities that could move the needle faster in the European Council's deliberations.

Such a body would fill an obvious institutional gap, enabling the EU to speak with one voice, act more rapidly, and integrate its security and defence policies more effectively. But it would also address a political gap, offering a framework for member states willing to move further and faster in defence cooperation under the principle of enhanced cooperation. Article 20 TEU provides the legal basis for such differentiated integration, while Articles 42(2) and 42(6) TEU establish the foundations for "the progressive framing of a common Union defence policy" and for Permanent Structured Cooperation among states with higher military commitments. A European Security Council would therefore reinforce the European Commission's work on "material defence readiness" with institutional and political might.

Membership of the European Security Council would be open to all 27 EU member states, and become operational once at least 15 states had ratified its format. The author's proposed format differs from other proposals on the market, including the Martens Centre's 2019 proposal, in that it allows all member states to join the Council or opt out based on their national interests. The idea behind the European Security Council is to limit fragmentation and internal competition between member states by avoiding the division into tier 1 and tier 2 countries. Given the current insurmountable pressure facing the EU from both internal and external forces, greater internal European integration and equal footing for all member states are the answer to building greater intra-European trust.

In addition, the President of the European Commission (or the Commissioner for Defence), the President of the European Parliament and the EU High Representative for Foreign Affairs would hold non-voting seats on the European Security Council. This would facilitate better institutional coordination and reduce "silo" working. If the European Security Council were to meet at the level of ministers of defence, the chair of the Security and Defence Committee in the European Parliament, the Chief Executive of the European Defence Agency (EDA), the chair of the Political and Security Committee (PSC), and the heads of the EU Military Committee and the EU Military Staff would be invited to join as members without a voting seat.

On top of that, strategic partners such as the United Kingdom, Norway and Ukraine would be invited to participate as permanent associate members. Other like-minded countries, whether European or non-European, with whom the EU has concluded a Security and Defence Partnership, might be invited to ESC sessions to coordinate responses to security threats of common interest. These partner countries may choose to support and/or

implement parts of the European Security Council's decisions in accordance with the stipulations of their agreements with the EU, as well as their own national political ambitions and legislation. Thus, the ESC would offer a high-level forum for discussions and debates on threat perception on the European continent outside NATO, for topics that cannot be addressed within the North Atlantic Alliance. This inclusive design would provide the EU with a coordinated platform from which to develop its security and defence agenda, enabling it to respond more swiftly to growing threats on the continent.

To be effective, a European Security Council must meet several key criteria. It must be representative and capable of forging a unified vision, as well as of implementing decisions effectively. It must also be determined to make sustained efforts until the desired outcome is achieved. Decisions in the European Security Council would be made by qualified majority voting when consensus is difficult to achieve, allowing members who wish to advance a particular issue to do so without the delays imposed by countries that want to opt out. By avoiding the unanimity rule that normally governs EU decision-making, the ESC could ensure timely action.

In times of emergency, the ESC would provide a forum for European leaders to coordinate and formulate rapid responses to crises. While NATO and the EU often experience delays in decision-making due to their size and consensus requirements, the ESC could swiftly address emerging threats, such as cyberattacks and hybrid warfare, as well as security crises affecting both the EU and its neighbourhood.

Crucially, the ESC would act as a steering body, enabling Europe to develop greater strategic autonomy in defence. This structure would allow European states to respond more quickly and effectively to regional crises. The ESC would also encourage European nations to play a more active role in shaping their defence strategies. Additionally, enhanced coordination through the ESC could strengthen NATO's European pillar, particularly if member states hold each other accountable for meeting their defence spending commitments of 5 % of GDP and for implementing the Defence Readiness Roadmap 2030.

At the World Economic Forum in Davos, Commission President Ursula von der Leyen called for building a "new form of European independence", stressing that as the world changes, Europe must change with it. For eight decades, Europeans have relied on American protection in times of danger. Today, Europe must demonstrate that it can rely on itself. In an era of shifting alliances and unpredictability in Washington, Europeans must act together with unity and common purpose. Establishing a European Security Council would be a decisive step toward greater independence, deeper integration, and true responsibility for Europe's own security.

Summary Table for European Security Council

Institutional Nature & Role	Intergovernmental body within the European Council/Council of the EU, serving as a platform for high-level political discussion and decision-making on security and defence. Operates at heads of state and government level, and at defence ministers' level for technical coordination.
Leadership	Chaired by the President of the European Council to ensure political authority and continuity.

Purpose	Permanent, structured forum for strategic deliberation on security and defence; coordination on defence capabilities, readiness, defence market, support to Ukraine, and crisis responses. Streamlines existing contact groups and ad hoc coalitions and accelerates political decision-making, potentially enabling faster formation of qualified majorities.
Legal & Political Foundation	Based on Article 20 TEU (enhanced cooperation) and Articles 42(2) and 42(6) TEU (progressive framing of common defence policy and PESCO). Reinforces the Commission's concept of material defence readiness through institutional and political mechanisms.

CONCLUSIONS: KNOWLEDGE AS A MORAL IMPERATIVE

In seven years the Pontignano conference on the Europe of the Future about 300 students, professors, managers, entrepreneurs, journalists, storytellers, artists and policy makers. They came from all member states and beyond (China, USA, Africa, Middle East, South America, Canada, Australia, India). We are proud that more than half of them are less than 30 years old and women. Amongst the partners some of the best European universities and the foundations that produce ideas for the five largest European Political Parties (European People Party, Socialist & Democrats, European Conservatives and Reformists, European Green Party, Liberals and Democrats). The project has become a unique opportunity for people to come from countries having different interests, parties promoting different political agendas, firms operating in different industries, and still learn from each other.

It has not been easy to build these “bridges” in a hyper polarized world where most expect human beings just to take sides in ever ending conflicts. The project has survived and grown thanks to the enthusiasm and determination of a visionary think tank, its partners and of a group of leaders who are convinced that the survival of societies is first about knowledge and concrete ideas.

The long list of leaders that always supported Vision with their experience, suggestion and patience include: **Maria Joao Rodrigues** (Chair of the Board of Re-imagine Europa, Former President of FEPS and Former Portugal's Minister), **Bill Emmott** (Chairman of the International Institute for Strategic Studies, Former Editor-in-Chief of the Economist), **Alexandra Borchardt** (Lead Author at European Broadcasting Union and Senior Research Associate at Reuters Institute), **Barbara Kolm** (Member of Austria's National Council with the Freedom Party and former Vice president of the Austrian Central Bank, President of the F.A. von Hayek Institut and director of the Austrian Economics Center), **Sandro Gozi** (Secretary General of the PDE), **Turi Munthe** (Media Entrepreneur and Board Member at GEDI), **Stephen Kahn** (Editor in-Chief at The Conversation), Raffaele Fitto (Vice Executive Director of the European Commission), **Erik Jones** (Director of the Robert Schuman Centre at the European University Institute), **Marco Buti** (Padoa-Schioppa Chair at the Robert Schuman Centre at the European University Institute), **Kalypso Nicolaidis** (Chair in Global Affairs at the School of Transnational Governance, EUI) and Luca Verzichelli (Professor of Political Science at University of Siena), Daniel Gros (Director of IEP at Bocconi University), **Giovanni Orsina** (Director of the School of Government at LUISS), **Antonella Baldino** (Managing Director at Istituto di Credito Sportivo), **Maestro Nicola Sani** (Artistic Director at the Chigiana Academy), Vanna Giunti (Assessor for Tourism at the Siena City Council), Luciano Fontana (Director of Corriere della Sera), **John Hooper** (Correspondent for Italy and Vatican for the Economist), **Jan Piotrowski** (Schumpeter columnist at the Economist), **Laura Hood** (Politics Editor at The Conversation), **Giancarlo Loquenzi** (Host of Zapping at RAI), **Gregorio De Felice** (Intesa San Paolo), **Andea Maffezzoni** (Chief Financial Officer at Monte Paschi di Siena), **Chiara Galgani** (Head of External Communication at Monte dei

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A mention must obviously go to our two main corporate partners, Monte dei Paschi di Siena and Intesa San Paolo: their commitment gives a concrete sense to the bond that makes financial institutions part of the community that Europe is meant to be. And to the city council of Siena: one of the most beautiful cities of Europe, one of the best place where to rediscover the virtues that a "*buon governo*" requires.

Vision and the Siena conference belong to the younger generation. It is their turn to build an entirely new world. Whoever has the political or economic responsibility to lead the European Institutions, whoever still tries to form public opinion, must consider it morally imperative to look for the dispersed knowledge and the new ideas that can help us to navigate uncharted waters. Older generations must look for energy that can come from endeavors similar to the Siena conference on the Europe of the Future.